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In Memory of
RAYMOND A. BAUER (1916-1977)
Pioneer in the study of corporate social
performance and policy

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INTRODUCTION

This is the first volume in a new series of publications designed to stimulate research and promote the exchange of research results dealing with one of the most significant and pervasive issues of our time—the relationship between the large corporation and its social environment. The field of study embraced by the phrase “corporate social performance and policy” is intended to include a wide range of questions about this relationship. Specific research interest may center either on an individual organization or class of organizations and its environmental impact, or on forces and changes in the environment itself and *their* impact on managerial organizations. In addition, the processes of environmental scanning, organizational change, policy development and implementation within organizations, and interorganizational adaptation are, of course, included. An additional point worth emphasizing is that this series of publications is intended to make available *research studies* relating to these subjects. These volumes are *not* intended as an outlet for journalistic reporting or

general discussion of topical issues; on the contrary, the goal is to encourage and make available the results of serious and extensive investigations and analyses.

This explanation of the title of the series implies the justification for the publication itself. The broad impact of large organizations and particularly large business corporations on social and economic life, both in our nation and in the rest of the world, is a subject of overwhelming current interest and concern. It is by now apparent that concern with "corporate social responsibility" was not a passing fad of the militant sixties but, on the contrary, signalled a major change of direction or, at least, an additional dimension of development in the evolution of both the ideology and the practice of management. The most militant critics and the most committed apologists for the corporate system share at least one common view. The broad societal impact of large organizations is of overwhelming importance, and the recognition of this impact and the development of policies to deal with it is a critical task, both for organizational managers and for society at large.

The expanding general interest in corporate social performance and policy, whether from a critical or favorable perspective, has produced a considerable academic response in the form of courses, seminars, and textbooks and other publications. Necessary and valuable as much of this academic activity has been, it must, in fairness, be acknowledged that very little of it has been based upon a serious research foundation. This lack of a research base is, of course, perfectly understandable. The topics of interest and concern are in themselves new, or at least new forms of old issues. In addition, the field of study has lacked an overall structure or conceptual foundation that would serve to identify research questions and permit comparison, appraisal, and synthesis of research results. Indeed, until very recently there has been a necessary emphasis on descriptive reporting and on the accumulation and exchange of experiential observations, without which there is literally "nothing to study" from a research perspective.

It now appears that the accumulation of recorded experience and the extent of current activity in large managerial organizations, academic research centers, business associations, government agencies, and elsewhere are sufficient to render more comprehensive research activities and more systematic exchange and appraisal of research results feasible and desirable. Indeed, such activities are already getting underway, but their progress seems to have been slow for at least two reasons. One is the continuing lack of structure of the field of study itself, particularly as an area of research. The other is the lack of appropriate publication outlets for serious research analyses dealing with this subject.

The series being inaugurated with this volume intends to lift both of

these barriers to intellectual progress. This initial volume is addressed almost entirely to the first issue: The structure of this subject as an area for research, and the variety of research approaches, methods, and orientations that may appropriately be employed to deal with it. This volume thus differs from those that will come after it in that the papers in this volume attempt to develop frameworks for research studies and agendas of research methods and issues that will, it is hoped, be pursued and fleshed out by substantive studies to be published here and elsewhere in the future.

The successive volumes in this series will attempt to lift the second barrier to research progress noted above—the lack of an appropriate publication outlet for significant research studies in this area. We herewith solicit both suggestions as to research studies that should be commissioned or stimulated for the series, as well as the submission of research ideas and manuscripts already in preparation by users of these volumes and students of the area. We would emphasize that our goal is the publication of serious and significant pieces of research, not topical discussions or reports on short-term investigations of limited scope. On the contrary, this series offers a publication outlet for manuscripts of up to fifty pages in length, and representing extensive and systematic research effort on the part of one or more authors over a considerable time period. These are the types of studies—shorter than the research monograph but longer (and with a different orientation) than the typical article in most journals addressed to management students and practitioners—that appear to have no ready outlet in the existing literature. We would urge prospective contributors to communicate with the editor *in advance* concerning their areas of study, research design, scope and method, and time table for completion. One of our goals will be to encourage collaboration among investigators in different locations who share a common interest; another will be to stimulate individual investigators or groups to develop their studies in a fashion that will relate to, contrast with, or otherwise complement the studies of others so that individual volumes in the series can offer a balance among contrasting viewpoints or a collection of papers all relating to a single area where appropriate.

Lee E. Preston

CORPORATE SOCIAL PERFORMANCE AND POLICY: A SYNTHETIC FRAMEWORK FOR RESEARCH AND ANALYSIS*

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INTRODUCTION

In his pioneering contribution to the *Handbook of Organizations*, Arthur L. Stinchcombe noted that the study of “the relation of the society outside organizations to the internal life of organizations” was in an undeveloped state; indeed, “the field itself is hardly recognized as a special branch of research . . .” (38, pp. 144–45). Under these circumstances, Stinchcombe suggested that the student or scholar must make a choice as to “what kind of knowledge to seek immediately” among three main alternatives:

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- (a) to try to establish one proposition well . . . ;
- (b) to make distinctions among phenomena in the area or to create (or learn) schemes of analysis which may be of use to others (or to oneself) in analyzing particular problems in the future, which enterprise is called "theory" . . .
- (c) to try to increase the credibility of a number of propositions in the area by the use of whatever information comes to hand . . . (38, p. 191).

This paper, along with several others in this volume, is aimed at the second of these three alternatives—making distinctions among phenomena and attempting to create analytical schema for future use. We attempt to develop a framework for research and analysis of the relationship between the business corporation and its social environment, with particular emphasis on describing, explaining, predicting, and evaluating the behavior of firms with respect to *social*, as contrasted with *market* or *financial*, issues and variables.

The need for such an analytical framework seems scarcely open to dispute. Wamsley and Zald note Landau's observation that the "pre-paradigmatic state" of a discipline is characterized by "a plethora of competing schools, a polyglot of languages, and accordingly, a confusion of logics." They draw upon Kuhn's earlier analysis to point out that an analytical paradigm

sets out a logic or conceptual map by which one proceeds to analyze and from which one draws inferences. It creates and is created by a distinctive coherent research tradition . . . [and] is a sign of maturity in a particular scientific field. . . . [A] paradigm is more global and overarching than a model and, although less precise, it provides the framework for model building and testing. (43, p. 2)

For our purposes, an appropriate analytical framework or paradigm should include at least four critical elements:

- (1) A basic conception or model of the *corporate organization*, with specific emphasis on those aspects of the organization that link it to its host environment;
- (2) a corresponding conception or model of the *social environment*, or at least of those aspects of the environment most relevant to the analysis of corporation–society relationships;
- (3) a conception of the *modes of interaction* between the corporation and its environment, including not only the organization's reception of and response to environmental stimuli, but also its ability to stimulate or alter its environment, both intentionally and inadvertently;
- (4) a conceptual basis for *appraising* or evaluating corporate social performance—including both (a) the *process* of corporation–society in-

teraction, and (b) the *results* achieved—from both *internal* and *external* perspectives.

Neither this paper nor this entire volume can provide an analytical framework that fully comprehends all of the complex and multidimensional situations and variables that may arise in the analysis and implementation of corporate social policy. Nevertheless, an outline of the major dimensions of such a framework, and of some possible ways in which they may be more fully articulated, seems worthwhile. At a minimum, this attempt should serve as a basis for additions, corrections, and more detailed development of specific aspects by other contributors to this series and to the general literature. As this process proceeds, the evolving framework should serve as a basis for classifying and codifying research contributions, and for identifying specific hypotheses requiring further investigation and analysis.

SOCIAL PERFORMANCE AND ORGANIZATIONAL LEGITIMACY

The distinctive characteristic of the business corporation, for purposes of this analysis, is not its specific legal form but rather its social legitimacy as a limited-purpose managerial entity within the larger society. Managerial organizations, whether corporate or not, contrast significantly with voluntary or “expressive” organizations (clubs, churches, etc.) on the one hand, and with units of general government on the other. Managerial organizations are distinguished both by their performance of specialized functions and by their adoption of internal organizational structures and modes of communication and control in order to accomplish these functions. In the basic theoretical model of market capitalism, both the functions themselves and the effectiveness of any specific organization in discharging them are continuously tested in the marketplace. If the functions themselves are not desired by that set of external and impersonal forces roughly referred to as “market demand,” or if other competitive organizations are more efficient or effective in performing desired functions, then the specific organization simply ceases to exist. Under opposite conditions, the organization meets “the test of the market” and survives and prospers. Within this simple model, *market* performance is the sole dimension of *social* performance, and successful market performance thus provides both necessary and sufficient conditions for organizational legitimacy. In sum, according to this conception, Friedman’s dictum that “The social responsibility of business is to increase its profits” is simply the truth.

The interest in corporate social performance and policy that has developed in recent years involves not so much a rejection of the market model as a realization that it is seriously incomplete as a description of the relationship between large managerial organizations and their host environments. There has, indeed, been some contention that large managerial organizations, and perhaps even coalitions of smaller ones, can manipulate their environments so as to control both market and nonmarket forces and thereby generate their own "success" as their principal organizational output. This thesis—associated with Galbraith, Hacker, Nader, and other social critics—cannot be lightly dismissed, and hence requires a locus for investigation within a comprehensive research framework. It does not, however, provide the sole, or even primary, focus for our analysis. On the contrary, the overriding consideration is the simple fact that managerial organizations of all kinds—and particularly large and complex ones—have multiple impacts on society that are not fully mediated by the market mechanism, even when that mechanism is operating effectively. These impacts reflect the social legitimacy of the organization, and, hence, require managerial attention as well as systematic external evaluation. Thus, there is a need for a general analytical structure and collection of research techniques that permit the examination of a wide range of organization–environment interactions, impacts, and hypotheses.

The historic and current social legitimacy of the business corporation derived from its economic usefulness—specifically, as a means of amassing capital and directing its use. The historical process by which the corporation was given formal legal sanction is brilliantly analyzed, with particular reference to U.S. experience, in the authoritative study by Hurst (21), who emphasizes that the legal framework developed in response to underlying social and economic relationships, rather than the other way around. The most conspicuous current issues of organizational legitimacy arise not within the law itself, but—as suggested by the title of Christopher Stone's recent book—"where the law ends" (39).¹ Hence, primary interest focuses on the continuing process of organizational legitimation, which involves adaptation to a changing environment, rather than once-and-for-all establishment of a formal legal status for particular organizations or organizational types.

The functional approach to corporate legitimacy, of which Hurst's analysis is the rare and outstanding example in the legal literature, has been typical of traditional economic analysis. Other contemporary analysts, such as Lodge (24) and Cavanagh (13), see the problem of organizational legitimacy primarily in ideological or value terms. And still others, such as Galbraith (19) and Coleman (17), focus on issues of "power", both socio-legal and economic. A major current theme is the

search for new bases of legitimacy and legitimation that will respond to "contradictions" and strains within the contemporary system. This theme is addressed in a variety of ways by Bell (9), Harrington (20), and Levy and Zaltman (23). In these latter analyses, the key to continuing (or renewed) organizational legitimacy appears to lie in the resolution of conflicts or discrepancies between *traditional* functions, ideologies, and power relationships on the one hand, and those that are *future-oriented* on the other.

An appropriate conception for analyzing the continuous process of organizational legitimation—whether from a functional or a philosophical perspective—is described by Thompson as the "natural-system approach." He writes:

[We] assume that a system contains more variables than we can comprehend at one time, and that some of the variables are subject to influences we cannot control or predict . . . Central to the natural-system approach is the concept of homeostasis, or self-stabilization, which spontaneously, or naturally, governs the necessary relationships among parts and activities and thereby keeps the system viable in the face of disturbance stemming from the environment. (41, pp. 6–7)

We would add to Thompson's characterization only the caveat that self-stabilizing activities are not necessarily "spontaneous or natural," but in fact have to be designed and developed within and among organizations. Indeed, the creation of the key structural elements necessary for self-stabilization, and their functional implementation within the management process, is the central problem in designing and executing corporate social policy.

MODELS OF ORGANIZATION AND ENVIRONMENT

This section develops some elements of a formal model of the managerial organization and, in less detail, a corresponding conception of the social environment in which such organizations "live and move and have their being." The organizational model arises from an initial conception of Parsons (30), as further developed by Thompson (41). The conception of the social environment combines elements from a broad survey of social science literature, and emphasizes some recent contributions and conflicting viewpoints.

The Parsons-Thompson Model of Organizations

Parsons originally suggested that the structure of a hierarchical organization might be broken down "according to three references of function

or responsibility, which become most clearly marked in terms of the external references of the organization to its setting or to the next higher order in the hierarchy." These three elements he termed the *technical*, *managerial* and *institutional* levels, or sub-systems, within the organization.

The *technical* elements are those that accomplish the specific and distinctive tasks or functions of the organization:

In an educational organization these are the actual processes of teaching; in a government bureau, the administrative process in direct relation to the public. . . ; in a business firm, the process of physical production of goods, etc. . . . The primary exigencies to which this sub-organization is oriented are those imposed by the nature of the technical task such as the 'materials'—physical, cultural, or human—which must be processed, the kinds of cooperation of different people required to get the job done effectively. (30, p. 60)

Parsons noted, however, that "it does not make sense" to carry out these technical functions without having made some prior decisions about what kinds of technical activities are to be undertaken and how one such activity relates to another. Thus the technical functions within an organization are controlled and serviced by higher level units, which he refers to as the "managerial system." The functions of the managerial system are: (1) to mediate between the technical organization and the users of its "product," and (2) to procure the resources necessary for carrying out the technical function. The managerial system thus looks both *inward*, to control the operations of the technical system, and *outward*, toward both the markets for the products of the technical system and the resources required for its continued operations.

These two levels of functional activity might be sufficient to describe an organization within a social system based solely on market relationships. However, Parsons was thinking in a broader context:

A formal organization . . . is the mechanism by which goals somehow important to the society, or to various sub-systems of it, are implemented and to some degree defined. But not only does such an organization have to operate in a social environment which imposes the conditions governing the processes of disposal and procurement, it is also part of a wider social system which is the source of the "meaning", legitimation, or higher-level support which makes the implementation of the organization's goals possible. Essentially, this means that just as a technical organization . . . is controlled and "serviced" by a managerial organization, so, in turn, is the managerial organization controlled by the "institutional" structure and agencies of the community. (30, pp. 63-64)

The third, or *institutional*, level of the organization may take many different forms. These “are the mediating structures between the particular managerial organization—and hence the technical organization it controls—and the higher-order community interests which, on some level, it is supposed to serve.” Parsons suggested that:

The foci of this higher level of controls . . . are of three main types, which often appear in combination. One control is universal: The operation of the organization is subjected to generalized norms, valid throughout the wider community. These range from the rules formerly codified in the law to standards of “good practice” informally accepted. So far as control is of this type, the distinctive thing is that no organized agency continually supervises the managerial organization; intervention is likely only when deviant practice is suspected. . . .

The second type of control mechanism is some formal organization which is interstitial between the managerial structure and more diffused basis of “public interest.” The fiduciary board which supervises the typical private non-profit organization is the type case, though in many respects *the directors of business corporations also belong in this category*. [Italics added.]

Finally, the third type is that which brings the managerial organization directly into the structure of “public authority” at some level. In our society, this is usually “political” authority, i.e., some organ of government. . . . The relation to superior authority may in turn be “administrative” or “regulative.” (30, pp. 64–65)

The basic structure of the Parsons model was extensively elaborated by Thompson, with particular emphasis on the impact of the social environment on all three levels of an organizational system and on the development of criteria and techniques for organizational assessment and control. Wamsley and Zald made extensive use of Thompson’s analysis in their discussion of “the internal political economy” of organizations, with a strong emphasis on the role of successive hierarchical levels in “buffering” the technical core activities which constitute the organization’s fundamental social purpose. They also stress four specific functions of the managerial and institutional levels:

- (1) defining and interpreting goals and missions;
- (2) creating and sustaining boundary-spanning roles;
- (3) recruiting and socializing elites;
- (4) overviewing, controlling and evaluating. (43, Chap. 3)

The Parsons model was also applied explicitly by Post (31) to describe the organizational structure of an insurance company, and to provide a basis for analyzing the varied responses of the insurance industry to social and economic change. (See Exhibit 1).

Exhibit 1 Organizational Subsystems of an Insurance Company, An Illustration of the Parsons-Thompson Model

Technical Subsystem:

Underwriting, involving the selection of insurable risks and the calculation of rates.
Investment of insurance premiums in permissible investment options, such as land, municipal and industrial bond, and common stocks.

Managerial Subsystem:

Coordination of underwriting and investment activities.
Sales activities designed to secure resources (candidates and premiums) for the underwriting and investment departments.
Settlement of claims that involve distribution of insurance reserve funds to legitimate claimants under insurance policies.

Institutional Subsystem:

Legal activities directed toward preserving the insurance fund for legitimate claimants.
Public relations activities directed at providing information and cultivating understanding of insurance activities.
Community and public affairs wherein the insurer's relationship with the local, state, and national communities in which it operates is preserved and cultivated (includes lobbying).

Source: Post (31), p. 6.

These references suggest the general usefulness and some possible extensions of Parsons' original conception of the three-level organizational structure. It is also essential here to emphasize as strongly as possible the point that changes in the social environment create stimuli and pressures that cannot be deflected or resolved at the "institutional" level alone, and that these, in fact, penetrate to the managerial level and even the technical core. Correspondingly—indeed, perhaps with even greater frequency and importance—the social impact of organizations originates in the decisions at the technical or managerial levels, and is recognized at the institutional level only *after* being received and responded to by the host environment. An intention to alter this process—so that environmental impacts are anticipated and, where necessary, modified *before* they actually occur—is an important stimulus and goal in the development of corporate social policy.

The Social Environment

What conception of the social environment will be most helpful in both the development and the study of corporate social policies and performance impacts? This question is not easy to answer. At one extreme, it is possible to conceptualize society as a cohesive entity, characterized by a complex set of common or system-wide attributes—geographic, historic, institutional, economic, and cultural. However, most analysts are impressed by the extent and significance of internal diversity within society,

the lack of cohesion among its many and varied elements, and, in particular, the relatively weak emphasis on, or even recognition of, goals or purposes for society as a whole, as compared to the clear identity and strength of social subgroups, organizations, and purposive coalitions. Thus, if one wishes to develop a precise analytical conception of the social environment as a basis for either research or managerial policy, an initial and critical choice must be made between an approach based on some conception of *society as a whole*, and hence cast in terms of broadly prevailing trends, themes, and institutions, and one based on a conception that places primary emphasis on *sub-systems*, differentiated groups, and situations of imbalance, conflict, or cooperation. In addition, whichever primary orientation is adopted, there remains a further choice as to the appropriate societal features or group of differentiating characteristics requiring emphasis. Since the number and variety of possible "models" of the social environment appear to be literally unlimited, these analytical choices can best be indicated by example.

SOCIETY AS A WHOLE

With respect to analytical orientations emphasizing a concept of *society as a whole* and a set of society-wide forces, goals, or trends that form the social environment of any particular organization, many different examples can be identified in the contemporary literature. In a conception that we shall modify slightly below while adapting it to our own purposes, Daniel Bell describes society as a holistic entity composed of three interactive elements—the social structure, the polity, and the culture. (8, p. 12; and 9, p. xi.) Bell states that the trifurcation of society into social structure, polity, and culture involves an explicit rejection of philosophical "holism"; and, indeed, as his analysis of "contradictions" progresses, there is some substance to this contention. However, his fundamental orientation—particularly in *The Coming of Post-Industrial Society*—is that the components interact to produce changes in the whole. Indeed, the mere mention of "post-industrial society" implies the existence of a social entity that can be so described, even if its principal characteristics arise from the interaction of component elements.

According to Bell's analysis, a critical change in the social structure—specifically, a shift from an "economizing" society focused on the efficient use of scarce resources to a "post-industrial" society in which "theoretical knowledge" is the key productive factor and its direction and control the central problem for social decision-making—will set off a sequence of changes in the polity and the culture. At the outset, Bell states that these patterns of change are not determinate; however, as the

argument progresses he comes to predict a variety of more specific developments, particularly "the subordination of the corporation," as the "economizing mode" is replaced by the "sociologizing mode" as the principal means of directing economic—and, by extension, social and political—activity.

Although Bell's insistence on the primacy of intellectual technology could be interpreted as an "ideological" position, it is not so intended. Indeed, the specific rejection of "old political passions" as guiding forces in modern social life was the main theme of one of his previous works (10), and is explicitly affirmed as the starting point for his more recent analysis (8, p. 34). In direct contrast, Lodge recently reasserted the primacy of ideological considerations; moreover, he argued that the traditional American ideology of pragmatic individualism is rapidly being supplanted by a distinctly different orientation that he terms "communitarianism" (24).² However, Lodge's argument is not simply that ideological factors dominate, or at least serve to *define*, legitimacy within the social environment, thus conditioning the process of social change. He further argues that "communitarianism" is in the process of creating a new *Gemeinschaft* in which:

- (1) community membership rights replace property rights as the basic organizing social principle;
- (2) "community need" replaces individual consumer desire as the dominant economic force;
- (3) the central role of the several levels of institutional government as an agency for social planning and direction is greatly expanded; and
- (4) a new intellectual synthesis develops that is holistic and significantly "subjective," rather than specialized, rational and deceptively "objective."

A third approach to the analysis of the social environment on a holistic, rather than fragmented, basis stresses the importance of the public policy process, including the institutional framework within which it takes place, as a central integrating element within an otherwise inchoate plethora of social forces. The "institutional-systems" model sketched by Preston and Post (33) represents one attempt to weave together elements from the legal, institutional, and historical literature in order to provide some content to the notion that *society as a whole*, rather than specific sub-units or constituencies, is a significant focus for the analysis of the social environment of any particular organization. One feature of this model is its emphasis on the broad range of social forces that provide *input* into the public policy process, as well as the role of that process in articulating specific goals, constraints, opportunities, and limitations on behalf of *society at large*.

It seems significant that the predictive implications of Bell's functionalist analysis, Lodge's ideological emphasis, and more conventional institutional and historical approaches are essentially similar. All of these analyses suggest an increased emphasis on "sociologizing" and "participative" processes throughout society, and an increased role for "intellectual technology," probably centralized in government, in directing the course of economic and social change, and hence in determining the direction and goals of managerial activity within individual organizations.

SOCIETY AS A COLLECTION OF SUBSYSTEMS

The alternative analytical conception—that the social environment consists of distinct, although possibly interactive, groups and elements—has, of course, a long intellectual tradition, and has been dominant in the evolution of corporate social policy up to the present time. Indeed, a general predilection to think of society as intrinsically composed of disparate elements and groups is almost unavoidable. And this predilection is reinforced by the fact that the most important example of the long-term evolution of corporate social policy specifically focuses on a single differentiated group within the larger society: the organization's employees and, eventually, their own formal organization, the labor union. Hence, it is not surprising that both the practice and the study of corporate social policy has frequently involved the identification of specific and differentiated constituencies and the discovery (or simply receipt) of their various concerns, needs, and "demands." The common tendency to think along these lines is reflected, for example, in the topical coverage of conferences and collections of essays dealing with corporation–society relationships, such as the pioneering early collection assembled by Mason (27) and the more recent volumes edited by Anshen (3) and McKie (28). (By contrast, a more holistic approach is reflected in the recent Backman anthology(6).)

As an alternative to the actual list of constituencies—employees, stockholders, customers, community citizens, etc.—constituting the social environment, Child offers a more synthetic conception based on four dimensions (omitting the *physical* setting), as follows:

- (1) *markets*, both factor and product, where economic considerations dominate and the critical modes of interaction are communication and exchange;³
- (2) *technical knowledge*, the environmental element that provides the focus for Bell's analysis of "post-industrial" society;
- (3) *political environment*, comprised primarily of the institutional structures of government, and their roles with respect to the *other elements*;

(4) *socio-cultural environment*, the attributes of which are, according to Child, "intangible and indiscrete," and include "orientations and values," "life styles," and associations that "can be subsumed by the concept of 'community,' particularly if one does not insist that this must be linked to the notion of a specific territorial base." (15, pp. 14-16)

Commonplace and plausible as a fragmented or "constituency" approach to the analysis of the social environment may be, it is not without major conceptual difficulties. First, there is the simple fact that most individuals, and even most managerial organizations, belong to multiple groups, and that substantial differences in concerns and goals may arise among the several different social coalitions that share some common memberships. This fact, among others, led Olson (29), Schelling (36, 37), and others building upon the earlier theoretical work of Arrow (4) to argue that even clearly identified and significant groups may not be able to act jointly to determine and achieve their own self-interest. Furthermore, even where the goals of specific constituencies *can* be clearly defined Schelling has emphasized the dangers involved in allowing the broad social performance goals of an organization to be determined by "some subset of its customers, . . . employees, . . . whatever ethnic group in the community is most articulate or most threatening, by people who love dogs or by people who are allergic to dog hair" (36, p. 89). He stresses the importance of mutual coercion or uniform practice among all parties involved, the relocation of legal obligations, and public sector leadership—all essentially holistic approaches—in the resolution of such conflicts.

Apart from all of these considerations, when either the formation or the analysis of corporate social policy focuses primarily on specific social groups and constituencies the result is an inevitable emphasis on formal associations and identified interests as they have existed in the *past*, an orientation which, although not necessarily insignificant, may not serve to identify the significant social forces and issues of the *future*. And even in the more synthetic conceptions, as exemplified by that of Child, the process of *interaction* among diverse forces or dimensions of social life is necessarily neglected. However, to the extent that many of the critical problems of modern society arise because of "the simultaneous increase of individualism and interdependence" (40, p. 72), then a conceptualization that permits a balanced emphasis *both* on significant social subgroups *and* on society as a whole is probably essential.

THE "POLITICAL ECONOMY" MODEL

The "political economy" model of organizations developed by Zald (45), and extended in his work with Wamsley (43) and others, represents an

attempt to deal with both the holistic and "specific publics" aspects of organization-environment relationships. This model also develops a parallel framework of internal and environmental structure and process somewhat similar to the more general framework we shall propose below. The analytical scheme classifies the components of the "political economy" of organizations into four categories, as follows:⁴

	Environmental	Internal
Political	1	3
Economic	2	4

The elements in the first category (Environmental-Political) correspond roughly to Bell's conception of the "polity"; those in the second (Environmental-Economic), to the physical and economic conditions Bell considers part of the "culture." (It is notable that other broad social and historical conditions included in Bell's concept of "culture" are not specifically mentioned, perhaps because of the narrower focus of Zald's analysis.) Categories three and four contain the essential features of Parson's institutional and technical elements of organizations, respectively; and Parsons' managerial subsystem appears to span the two categories.

An example of the use of the "political economy" model to describe the environment of the Selective Service System (Exhibit 2) illustrates both its strengths and limitations. On the one hand, this conception permits the analyst to identify specific groups, and even named individuals, that may exert critical environmental influence, while at the same time recognizing the presence of the general public and "interested parties with low resources" as elements of the total picture. On the other hand, the specifically "economic" features of the model are not strongly emphasized in this illustration—although, if a "supply and demand" dichotomy were to be adopted instead of the "hostiles and allies" dichotomy used here, then the House Appropriations Subcommittee ("supply") might be separated from the House Armed Services Committee and other "demanders." More important, this illustration suggests that both the basic structure and the specific characteristics of the relevant "environment" vary greatly from organization to organization, and thus that the "political economy" approach, although highly suggestive, is not sufficiently general to serve as the basis of a comprehensive and completely flexible analytical framework.

Exhibit 2 "Political Economy" Model of Selective Service System*Hostiles**Allies**Incontact Influentials*

Presidential Commission on Draft (1969)	American Legion
Supreme Court	V.F.W.
Senator Edward Kennedy	National Guard Association
	House Armed Services Committee
	House Appropriations Subcommittee
	Senator John Stennis
	Hon. Mendel Rivers

Latent Resources with Occasional Contact

Assistant Secretary of Defense for Manpower & Reserve Affairs	State Governors
Department of Labor	State Adjutant Generals
	FBI

Interested Parties with Low Resources

Antidraft Groups
Antiwar Groups
Draft-Age Men

For the basis for the analytical judgment, see Gary L. Wamsley, *Selective Service and a Changing America* (Columbus, Ohio: Charles E. Merrill Co., 1969), *passim*.

Source: Adapted from (43) p. 29.

A SYNTHESIS

In an attempt to draw together these diverse and important themes and approaches, we suggest here a synthesis of concepts that draws attention to trends and issues arising within society as a whole, while leaving room for the analysis of the special concerns and problems of individual constituencies or institutional entities. This threefold conception parallels to some extent the Parsons-Thompson organizational model presented in the previous section, and utilizes elements of Bell's conception of society as social structure, polity, and culture, along with some of the basic structural features and emphases of Zald's "political economy" model.

The elements of the suggested summary framework are as follows:

- (1) A central *core* of basic economic and social conditions, long-term

historical trends, and widely-shared values and behavioral norms. These are the fundamental elements of social life, and determine both the basic characteristics and the effective purposes (whether recognized and stated, or not) of the society. The core includes, of course, Bell's conception of the "culture," along with some underlying aspects of the social structure. Lodge's emphasis on ideology also belongs in the core area.

(2) A higher level structure of formal *organizations*, leadership groups, and institutional arrangements that serve to mobilize and focus the available resources and values-motivations. These are, of course, the "managerial" elements within the larger society, and might be said to constitute the "social structure" *proper*, in Bell's conception.

(3) The formal structure of *law and public policy* explicitly designed to articulate and "institutionalize" the concerns and goals of the larger society; i.e., the "polity."

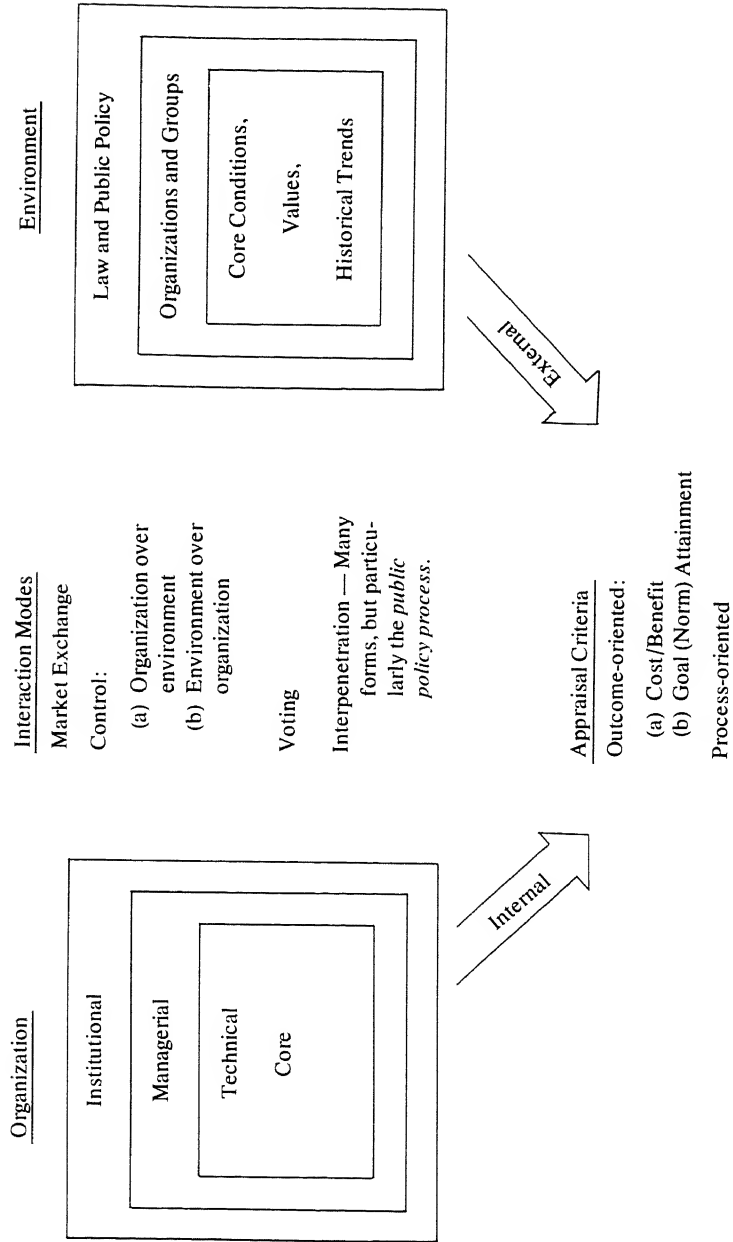
In Exhibit 3 this threefold conception of the environment is diagrammed alongside the Parsons-Thompson threefold model of an organization, and the two elements are linked by both (1) interaction modes and (2) normative appraisal criteria. The next two sections explain these latter elements of the conceptual scheme.

INTERACTION MODES

A conventional analysis, and one not inconsistent with Parsons' original conception, might suggest that an organization interacts with the larger society primarily at the "institutional" level. Indeed, the notion that the "institutional" level of the organization deals primarily with the "institutional" (i.e., legal-political) level of the environment underlies the traditional "legalistic" approach to corporation-society relationships, as described in the now-classic article by Votaw and Sethi (42, pp. 192-4). The two other conventional corporate responses they describe also fit easily into our suggested analytical framework. The "industrial relations" response involves the recognition by the corporation of other "managerial" entities (e.g., labor unions) within the social environment, and negotiations with such entities on a bargaining basis. The "public relations" response involves efforts to affect the knowledge, attitudes, or beliefs of members of society, and thus touches—or at least *attempts* to touch—the "core" of the environment, as we have described it.

These examples illustrate efforts on the part of corporate organizations to deal with all levels of the social environment, and not simply with the

Exhibit 3 Diagram of Analytical Framework



formal structure of legal and political institutions. Similarly, forces from all levels of the social environment may penetrate the institutional shell of corporations to affect the managerial level and the technical core. Indeed, one of the striking characteristics of several important new areas of public policy concern—e.g., equal employment opportunity, environmental protection, and occupational health and safety—is that their impact is felt primarily at the technical level of corporate activity. By contrast, other historic areas of public policy evolution have had their principal impact at the managerial level (e.g., collective bargaining, international trade policy) or on the institutional status of the corporation and its relationship to other social entities (e.g., antitrust and regulatory policy, macro-economic policy).

Most analyses emphasize two sharply contrasting modes of corporation–society interaction: *market exchange* and *control*. The nature of market exchange relationships is familiar. Key characteristics are: (1) the formal independence of the exchanging parties, (2) the voluntary nature of their interaction, and (3) the paradoxical combination of disparity (i.e., differences in resource endowments and tastes) and parity (i.e., the transaction price) that lies at the core of pure market exchange relationships. By contrast, relationships based on *control* involve explicit recognition of both interdependence and inequality among the parties involved. Control, of course, may be exercised by either party over the other. That is, the organization or some coalition of organizations may dominate the environment; or society, operating through its own managerial and institutional superstructure, may control the organization.⁵ Conceptions of the domination of society by a corporate “technostructure” or “power elite” imply, of course, the former conception; direct public regulation, as well as the extreme case of government ownership and management, are examples of the latter.

Building upon the earlier analysis by Dahl and Lindblom, among others, Tom Burns identified four modes of interaction “by which we systematize the multifarious traffic of the social world” (12, p. 144). In addition to *market exchange* and *control* (which he termed “bureaucracy”), discussed above, he emphasized two additional modes, the more important of which is *voting*.⁶ He noted that, among the identified interaction modes, only *voting* implies some type of formal equality among the voters. However, he further emphasized that “formal equality of voting rights not only does not guarantee equality of influence in the corporate state but systematically underwrites the preservation of inequality of power and influence” (12, p. 160, in ital. in the original). It is notable that, although formal voting has been a characteristic mode of interaction throughout our society and within the corporate structure itself, it has *not* been a significant mode of interaction *among* corporate organizations or

between them and their environments. A system of corporate federalism, or modern syndicalism, has yet to receive serious consideration, although it may be evolving in *parts* of societies as otherwise disparate as the U.S., France, and the U.S.S.R. A significant aspect of the increased emphasis on *participation* both within organizations and between them and their host environments may be a gradual enlargement of the role of voting, in a variety of forms, as a mode of corporation-society interaction. At a minimum, the emphasis on participative representation and due process—procedural norms ultimately based on an underlying conception of mutuality and equality—seems almost certain to increase (35, 44).

A fourth major mode of organization-society interaction in addition to market exchange and control—and repeating for emphasis that the current importance of voting is limited—may be termed *interpenetration*.⁷ Burn's discussion of power-development processes in society, as well as the entire companion essay by Taviss (40) and many other portions of the Marris volume (26), deals with forms of initiative and adaptation that can most conveniently be described under this rubric, although the term itself is nowhere explicitly used. By contrast, Wamsley and Zald refer casually to "the interpenetration of government and business" (43, p. 5) as if the concept were entirely familiar. A very concrete form of interpenetration is mentioned by Arrow, who suggests that one of the principal ways in which "the agenda of organizations" changes in response to the "agenda" of the larger society is through the recruitment of new personnel. As new persons become involved, "new items will appear on the organization's agenda . . . [and] the behavior of the organization will change" (5, p. 59). Arrow's analysis in general emphasizes the cost and informational aspects of the process of interaction and adaptation between individual organizations and society at large.

The concept of "interpenetrating systems," first suggested by Parsons, has become the central focus of our own study of corporation-society relationships. The basic thesis is "that the larger society exists as a macro-system, but that individual (and particularly *large*) micro-organizations also constitute separable systems within themselves, neither completely controlling nor controlled by the social environment" (33, p. 25). The similar characterization by Cohen and Cyert is also worth repeating here:

The organization and the environment are parts of a complex interactive system. The actions taken by the organization can have important effects on the environment, and, conversely, the outcomes of the actions of the organization are partially determined by events in the environment. These outcomes and events that contribute to them have a major impact on the organization. Even if the organization does not respond to these events, significant changes in the organizational participants' goals and roles can occur. (16, p. 352)

It may be well to emphasize at this point that all four interaction modes here discussed, as well as others that might be suggested, have both a structural and a processual dimension. (The inherent connection of structure and process is also made explicit in Zald's "political economy" model.) Thus, when we speak of *market exchange* as a mode of organization-environment interaction, we include both the *structure* of a social system organized around markets and the *process* by which markets operate to mediate relationships among organizations and individuals and, in general, to provide the traditional market contract basis for organizational legitimacy. Similarly, *control* implies both the existence of a formal control mechanism (ownership, legal authority, etc.) and the actual employment of that mechanism so that one organization or entity directs or limits the activities of another. *Voting* involves the electoral system and voting rights (i.e., structure, however determined) and the electoral process and its outcomes. (The strong analogy between the electoral system and the jury system may serve to reinforce this distinction; in both cases the structure must exist before the process can be used to determine particular outcomes.) Finally, with respect to *interpenetration*, many different structural relationships—like different kinds of markets, different control mechanisms, and different electoral systems—may be utilized within a single interactive decision-making and problem-solving process. Presidential jaw-boning, activist picketing, Congressional lobbying and advocacy advertising may all be specific structural forms of a broad interpenetration process—as, indeed, they have been with respect to recent public and private attempts to deal with the projected long-term imbalance between national energy requirements and available resources.

CRITERIA FOR APPRAISAL AND EVALUATION

Most of the discussion of corporate social performance and policy over the past couple of decades—and nearly all of the popular criticism of corporate practices—has assumed the existence of some set of norms, standards, or performance criteria against which corporate behavior might be evaluated, rated, and assigned praise or blame. These appraisal criteria are seldom specifically stated, and almost never examined in detail as to their sources, appropriateness, or mutual consistency. Now that a wide range of social impacts have become recognized as essential concerns of corporate management, the problem of specifying appropriate bases for measurement and criteria for appraisal has become acute. These issues are raised not only by the published judgments of external critics that some forms of corporate behavior are "good" and others "bad," or, indeed, by the rating of entire organizations as "high" or "low" on some

unspecified scale of "corporate social responsibility." The significant point is that any organization that takes the problem of social performance seriously must find ways to identify the appropriate sphere or focus of corporate social policy, as well as to discover whether or not any policy adopted or program undertaken has *any* effect whatsoever.

The problem of defining the appropriate *sphere* or focus of corporate social policy has been emphasized by Schelling:

In discussing "social responsibility" there is a tendency to take for granted that more of it is a good thing. . . . [But] responsibility is often not a quantity (something a person can have more or less of) but a *policy choice*, a choice among alternative values that one can be responsible to. . . . Often the question is not, "Do I want to do the right thing?" It arises in the form, "What is the right thing to want to do?" (36, pp. 88-90)

He also emphasizes that there are "two quite different notions of responsibility. One is like the doctrine of immanence: the responsibility is there. Duty exists. . . . The other is that responsibility is something to be assigned or created or invented" (36, p. 94). Clearly, one's notion of appropriate appraisal criteria will depend considerably on one's underlying concept of organizational legitimacy, and on whether the areas of social impact to be evaluated arise as inevitable consequences of the legitimating activity itself (e.g., provision of desired goods and services in response to market demand) or as extraneous considerations imposed by some external authority or pressure (power) group.

Whatever the specific sphere of corporate activity and/or social impact to be appraised, we may distinguish among appraisal criteria as to whether they are: (1) primarily *internal* or *external* in their frame of reference and application; or (2) primarily *outcome-oriented* or *process-oriented* in character. The conventional mode for evaluating business policy is, of course, *internal* and *outcome-oriented*. This is true not only of the dominant theoretical test—profitability—but also of other conventional corporate goals, both economic and social. Indeed, internal and outcome-oriented criteria are now commonplace in such social performance areas as affirmative action (percentages of minority and female employees within the firm) and environmental pollution. In the latter instance, internal outcome-oriented criteria such as specific pollution emission standards contrast sharply with external criteria such as improvement of ambient air quality levels, restoration of self-cleansing properties to waterways, etc.

In any event, whatever the specific area of social performance involved, and whatever the general character of the goals to be established, the problem of defining and applying appropriate appraisal criteria re-

mains difficult, and, one might add, difficult both intellectually and procedurally. As Thompson has emphasized:

Organizations and others assessing them prefer efficiency tests over instrumental tests, and instrumental tests over social tests. But efficiency tests are not possible when technical knowledge is incomplete or standards of desirability are ambiguous. . . . Both of these conditions exist at the institutional level of the organization. . . . Organizations are multidimensional, and when they cannot show improvement on all dimensions, they seek to show improvements on those of interest to important elements of the task environment. Organizations especially emphasize scoring well on criteria which are most visible. . . ; and when it is difficult to score on intrinsic criteria, organizations seek extrinsic measures. . . . (41, pp. 97-98)

Internal cost/benefit tests are, of course, the archetype of the rational organizational decision rule, and numerous attempts to develop such tests with respect to social performance and impact are illustrated in the survey of corporate analytical practices by Bauer and Fenn (7). It is no surprise that these authors found, as Thompson had predicted, that neither the causal models nor the measurement techniques required for conventional internal optimization analysis were available, and that the complexity of the situations confronted probably precluded their development. Hence, again following Thompson's analysis, there is a tendency for organizations to substitute specific goals or norms—comparison with past achievement levels, other organizations, external averages, etc.—for the more usual models of rational optimization when dealing with social issues. When this substitution occurs, the critical issue then becomes the *source* and *appropriateness* of such goals or norms, and particularly whether they arise from a perception of immanence within the organization itself (and if so, why and how) or whether they represent the standards or “demands” or external constituencies or authorities.

An alternative to appraising corporate social performance in terms of *outcomes*, whether justified in relation to cost or to other specific criteria, is appraising it in terms of *process*. Schelling (28, p. 91) raises the question of whether corporations are accused of being “irresponsible” (i.e., knowingly or unknowingly causing harm) or, by contrast, “unresponsive” (i.e., being unaware of, or unwilling to interact with, appropriate constituencies). Since the appropriate constituencies may be both internal (e.g., employees) and external (e.g., local communities, public agencies), process analyses and appraisals may, like outcome-oriented analyses, be both internal and external in focus.

The *process* of corporate responsiveness, rather than the achievement of specific performance outcomes, has been the major emphasis of two important research groups during the past several years, the Harvard

Business School group led by Raymond A. Bauer (2) and the University of Pittsburgh group led by William Frederick and David Blake (11). The conviction of these and other investigators that the *process* of organization-environment interaction is the critical focus for study may rest on at least two quite different underlying principles. One principle would be that there is a (demonstrated or assumed) connection between process and outcome, so that the former serves as predictor and/or determinant of the latter. The other, quite different, conception is that the *process* itself is the principal phenomenon, and that both the legitimacy and the appropriateness of any particular *outcome* rests on the *process* by which it is reached. This latter position seems to underlie Ackerman's detailed case studies (1), and is, of course, closely related to more general concepts of voting, representation, and legal due process as central determinants of the legitimacy of actions, decisions, and institutions in many other contexts of our society.

The point, in brief conclusion, is that both final *outcomes* and *processes* can be analyzed and appraised from both *internal* and *external* perspectives, although, again recalling Thompson's observation, the tendency for external criteria to become prominent (even for internal decision making) increases as the gap between the problem under analysis and the requirements of traditional, rationalistic optimization models increases. Equally important, appraisals in terms of *process* will involve entirely different concepts and modes of analysis than appraisals in terms of *outcomes*, and the results of the two may simply be noncomparable. Is the "social performance" of an organization that builds a recreational facility for its employees greater, less, or the same as that of another organization that allows its employees to vote on whether they would prefer a recreation facility or the distribution of its costs in the form of salary bonuses, and then abides by the result?

CONCLUSION

I have attempted to develop a comprehensive conceptual framework as a guide to the conduct of research concerning corporate social policy and performance. The essential components of the framework are set forth schematically in Exhibit 3, above, and their intended meaning and various intellectual origins are discussed throughout the text.

The usefulness of this framework can be tested in two different ways. One such test is the application of the framework as a means of classifying, relating, and contrasting contributions to the literature. This has, of course, been accomplished in part in the construction of the framework itself; but additional and more extensive surveys could certainly be made,

and new contributions can also be placed in perspective as they appear. The second and more important test of the framework is its use as a guide to the development of research questions or hypotheses, and to subsequent execution of research studies. This testing process can occur only over a considerable period of time, and the framework itself will undoubtedly be modified in order to increase its usefulness and correct its deficiencies as such applications proceed. In any event, the suggested framework provides a starting place—and the first conception of its kind presented in the literature, so far as I am aware—for the continuing study of corporate social policy and performance.

FOOTNOTES

*This paper has evolved out of about a decade of teaching, research and writing about various aspects of the corporation–society relationship. Hence, it cannot avoid repetition of some of the main themes of previous publications, particularly *Private Management and Public Policy* (33), "Corporation and Society: The Search for a Paradigm" (32), and "Strategy/Structure/Performance: A Framework for Organization–Environment Analysis" (34). The first of these publications attempted to develop an overview of the relationship between the business corporation and its social environment, and hence of the inherent connection between *business* policy and *public* policy—and in a form suitable for classroom instruction. The latter two involved rather substantial surveys of the corporation–society (or organization–environment) literature. By contrast, this paper focuses more narrowly on the construction of a research framework, and limits its references to the literature and to related issues both for reasons of space and in order to avoid duplication of material covered by other contributors to this volume.

1. George C. Lodge has pointed out to me that current issues involving property rights—as, for example, with respect to environmental pollution—are formally "legal" in character. However, even here the essential phenomenon seems to be the failure of received legal doctrine to anticipate or to take full account of current concerns. In effect, the law "ends" short of the problem at hand.

2. It is notable that "individualism" is treated by Lodge (and by a long historic tradition) as a society-wide attribute. Thus, it is entirely possible to conceptualize a social *whole* in which "individualism" is a dominant characteristic. A description of society as "individualistic" does not require that all subsequent analysis be conducted in terms of specific individuals and groups, coalitions, organizations, etc.

3. The relation of the firm to its *market* environment is, of course, a principal subject of traditional micro-economics and the special province of the "industrial organization" field. In addition, pioneering studies of the organization–environment relationship such as those Lawrence and Lorsch (22) and Chamberlain (14) focus primarily on *market* environment variables. The complete neglect of environmental variables is a surprising characteristic of some otherwise comprehensive organizational studies, including the classic treatise by March and Simon (25).

4. Of the several different detailed articulations of this category system developed by Zald and his colleagues, the most general is in 45, p. 231.

5. The two-way nature of these relationships, and also their characteristic instability, is strongly emphasized by Dill, who notes the tendency of both interest group pressures and

regulatory constraints to evolve toward some form of mutual exchange, ". . . a legal and contractual, *quid pro quo* basis" (18, p. 1081, see also pp. 1101-3).

6. Burns's fourth mode of interaction, which he termed "Hobbesian processes," is essentially the process of power-development, which can easily be subsumed within the broader concept of "interpretation" discussed below.

7. In the earlier presentation (33), interpenetration was viewed as a concept broad enough to include market exchange and control, as well as other interaction modes. This general conception is still correct; however, in the present analysis market exchange and control are treated as polar opposites—and therefore separately identified—while interpenetration refers specifically to interaction modes lying between these extremes. (See also the following essay by James Post.)

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AN ANALYTICAL FRAMEWORK
FOR MAKING CROSS-
CULTURAL COMPARISONS
OF BUSINESS RESPONSES
TO SOCIAL PRESSURES:
The Case of the United States and
Japan

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Business institutions, especially large corporations in the United States and Japan, have been given a large part of the credit for the remarkable growth and dynamism of their respective economies. Yet in both these countries business institutions have been beset by a high degree of public hostility and criticism—for contributing to a general deterioration in the quality of life, being insensitive to changing sociopolitical needs, and subverting decision making in the public domain through undue influence on governmental bureaucracies and political parties. Public opinion polls and news reports in Japan and the United States constantly record low business credibility. Surveys conducted by the Prime Minister's office in Japan report a constant increase in the number of public complaints against various forms of pollution, and a belief on the part of a majority of

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respondents that business is largely to be blamed for the destruction of the environment. In their view, pollution should be eliminated even if it means curbing economic activities (*Focus Japan*, May 1974: pp. 10–11, 34).

In two other national surveys conducted in 1976 by the newspaper *Yomiuri Shimbun*, public opinion was elicited on business (April 26 and August 16, 1976). In professional rankings, business was considered fifth with 13.8 percent of the respondents expressing respect. The top ranking was accorded to medicine (31.2 percent). This was followed by engineering (26.5 percent), teaching and academic life (17.2 percent), and politics (14.0 percent). When questioned about the need for disclosure, 75 percent of the respondents wanted private enterprise to make public their secrets as much as possible, especially those concerning pollution.

A survey conducted by Opinion Research in the United States in 1972 showed that the public's image of business and approval of its actions was then at its lowest since the early sixties (*Business Week*, June 17, 1972: pp. 100–103). A 1975 Gallup survey showed that in a national sample, only 19 percent of the American public considered the ethical standards of business executives high or very high. The comparative figures for medical doctors were 55 percent; congressmen, 14 percent; and advertising executives, 11 percent (Gallup, 1975–76). Furthermore, in terms of "public confidence," big business rated "lower with the public than all other institutions comprising what is frequently termed the U.S. power structure." The Harris public opinion polls report similar findings (Harris, 1976).

Both Japanese and American businesses have, of course, responded to social pressures for change. For a corporation, in the last analysis, is a social institution and must constantly strive to seek legitimacy for its survival. The response patterns, however, have varied according to different cultural and ideological value sets, sociopolitical environments, and styles of management.

The objective of this paper is to develop an analytical framework to facilitate cross-cultural comparisons of business responses to social pressures. A further objective is to compare Japanese and American business practices within this framework. (It should be noted that the term "corporation" is used in this paper in the generic sense to denote big business. Thus "corporation" and "business" are used interchangeably.)

THE FRAMEWORK

The analytical framework proposed here is classificatory in nature. The classes are only broadly defined because both the types of issues covered and the environmental context within which these issues must be

analyzed are so complex. Socio-cultural and political phenomena, involving interactions among human beings and social institutions, are difficult to analyze in precise quantitative terms. Arbitrary precision in the definition of variables is just as likely to conceal valuable information as it is likely to elucidate. A showing of causal relationships among variables so defined may be erroneous since the underlying variables are interdependent. One should be wary of the words that simplify when the reality they are presumed to describe is a complex one. Precision, under these circumstances, tends to force one into fixed positions which are intellectually difficult to defend and emotionally difficult to withdraw from. Any significant improvement in precision, therefore, could be achieved only by sacrificing important aspects of the issues to be analyzed or excluding certain elements of the external environment. Nor were the available data of the type that could be used to analyze variables within narrowly defined and precise boundaries. Thus, a framework that attempted to develop a broad classificatory scheme was the only approach both feasible and of some practical value.

The Social Context of Corporate Performance

The first and most important point to remember is that an evaluation of corporate performance or the performance of any other social institution must be, to a large extent, culturally and temporally determined. A specific action is more or less socially responsible *only* within the framework of time, environment, and the nature of the parties involved. The same activity may be considered socially responsible at one time, under one set of circumstances, and in one culture, and socially irresponsible at another time, in another place, and under different circumstances. No system for evaluating corporate social performance can therefore ignore the cultural and sociopolitical environment. Critics of the corporate social responsibility concept may consider these qualifications grounds for rendering any measurement criteria undefinable and therefore unworkable. However, criteria that have to meet the long-run needs of constantly evolving social institutions must necessarily be general and flexible (Votaw and Sethi, 1973: pp. 9-45; 167-91).

Properties of a Classificatory Scheme

Nevertheless, a classificatory scheme must have at least the following two properties if we are to make valid cross-cultural comparisons: stable classifications and stable meanings. The categories for classifying corporate activities should be stable over time so that, while the nature of those activities and public expectations may change, the scheme should be able to accommodate them to make historical comparisons. The definitions of

various classes should be such that they can be applied across firms, industries, and social systems.

The framework developed herein meets these criteria and suggests a rationale by which corporate activities can be analyzed in terms of social relevance so that comparisons over time and across industries and nations are possible. The framework consists of two sets of components. The first deals with categorization of the types of corporate responses. These are defined not in terms of specific activities, but in terms of types of underlying rationale applied in responding to social pressures. While specific activities across different cultures may differ greatly and may be difficult to compare, the categories of rationale are more general and therefore have broader applicability. The second component deals with the definition of the external environment or the context within which the corporate response is being made and evaluated. Here again the emphasis is not on the specifics of a particular social situation or problem, but on the generalized external conditions created by a multitude of acts by individuals, corporations, and other social institutions that are essentially similar within a given temporal and contextual frame.

This approach enables us to determine a logical and therefore acceptable external criterion against which a corporation's performance can be measured in a societal context. Thus it becomes an important complement to the body of research and writing dealing with the issue of the measurement of corporate social performance and lumped under the somewhat misleading title of corporate social audit (Abt, 1977; Bauer and Fenn, 1972; Dierkes and Bauer, 1973; Estes, 1974, 1976; Linowes, 1973, 1974; Seidler and Seidler, 1975; Sethi, 1973; Sethi and Shocker, 1974).

Dimensions of Corporate Social Performance

Business responds to two kinds of social forces, market and nonmarket. In the case of market forces, a firm adapts by varying its product, service, promotion, and price mix to meet changing consumer needs and expectations. Adequacy of response can be measured in terms of profitability and growth of the firm. All market actions have some nonmarket or indirect consequences for the society. These second-order effects are generally termed *externalities* (e.g., pollution) and have been traditionally borne by society as a whole. Industrialization and economic growth have been accompanied by a tremendous increase in such factors as deterioration of the environment, loss of individual freedom, industrial concentration, and business influence on government and the political process. This has led to a greater awareness on the part of society that there is a physical limit to the environment's capacity to absorb industrial pollution (Commoner,

1976; Meadows, *et al.*, 1972). Similarly, there is a social limit to the capacity of various individuals and groups in a society to conform to the needs of industrial growth (Hirsch, 1977).

Increased urbanization, advanced technology, and the interdependent nature of industries, locations, and services have made the operations of even a single plant so significant that "externalities" can no longer be ignored. Tsuru points out that in Japan the social character of the production process has become so important that the freedom of private enterprise can no longer remain unqualified. Conflict has arisen "between the traditional arrangement of the Japanese economy and the consequences of vastly developed productive forces, thereby creating . . . tensions and problems" (Tsuru, 1971). There have been increasing societal pressures in every industrialized nation for business to minimize the second-order effects of its activities and also to take a more active part and assume greater responsibility for correcting the social ills that inevitably do occur. *It is the business response to the nonmarket forces, commonly termed social responsibility and social performance of business, that is the focus of our inquiry.*

Corporations, like all other social institutions, are an integral part of a society and must depend on it for their existence, continuity, and growth. They therefore constantly strive to pattern their activities so that they are in congruence with the goals of the overall social system. The quest for legitimacy by the corporation and doubts by its critics about the legitimacy of some of its actions are the crucial issues in the concept of corporate social responsibility (Chamberlain, 1968; Churchman, 1968a, 1968b; Sethi, 1970: pp. 1-13).

A clearer way to evaluate corporate social performance is to use the yardstick of legitimacy. Given that both corporations and their critics seek to narrow the gap between corporate performance and its legitimacy, the social relevance and validity of any corporate action depend on one's concept of legitimacy. Viewed in this respect, we can describe corporate behavior as a three-stage phenomenon based on the changing notion of legitimacy from very narrow to very broad. Legitimization involves not only the types of corporate activities, but also the process of internal decision making; the perception of the external environment; the manipulation of that environment—physical, social, and political—to make it more receptive to corporate activities; and the nature of accountability to other institutions in the system. The corporate behavior thus determined can be defined as social obligation, social responsibility, or social responsiveness. (For a more detailed discussion of the three stages of corporate social performance, see Sethi, 1975a: pp. 58-64.)

Corporate Behavior as Social Obligation

Corporate behavior in response to market forces or legal constraints is defined as *social obligation*. The criteria for legitimacy in this arena are economic and legal only. Scholars like Milton Friedman (1962) and Henry Manne (1970, 1972) believe that a corporation is a special-purpose institution and that it leaves this arena at its own risk. The legitimacy criteria are met by the corporation through its ability to compete for resources in the marketplace and by conducting its operations within the legal constraints imposed by the social system.

This simplistic argument hides much more than it explains. Competition for resources is not an adequate criterion. Corporations constantly strive to free themselves from the discipline of the market through increase in size, diversification, and generation of consumer loyalty by advertising and other means of persuasion. Even in an ideal situation, the ethics of the marketplace provide only one kind of legitimacy, which nations have been known to reject in times of national crisis or for certain activities deemed vital to the nation's well-being.

Nor can the legality of an act be used as a criterion. Norms in a social system are developed from a voluntary consensus among various groups. Under these conditions, laws tend to codify socially accepted behavior and seldom lead social change. Laws may therefore be described as "the rules by which the force of politically organized society is brought to bear on the individual" (Votaw, 1969: p. 6). But if current laws and public opinion are being used to violate rights guaranteed to every member of the society by tradition and its underlying principles, then the legal system may lead social change by forcing the majority to adhere to those fundamental principles. Dowling and Pfeffer (1975: pp. 122-35) suggest three reasons why the legal criterion alone is not sufficient: One, social norms are dynamic in nature and change over time, whereas legal change, which is much more formal, is delayed and must await the enactment of a law or statute. Two, specific social values may contradict each other, whereas there is a presumption of consistency in the legal code. Three, the formal nature of the law confers a degree of social acceptance on the legal code that a social system may not be willing to accord certain activities during a transitional period, although it may tolerate such activities informally and on a small scale.

And, finally, the law has left unresolved the adjustment process between utility and responsibility as legitimating factors. A democratic society must have standards concerning the use of power and the process by which wielders of power are selected, evaluated, and removed from their positions. While the power exercised by corporate managers has vastly increased, legal criteria have not come to grips with it. The result has been

that "Power affecting the many both within and outside of the firms remains in the hands of a self-perpetuating few" (Epstein, 1972: pp. 1711-13).

The traditional economic and legal criteria are necessary but not sufficient conditions of corporate legitimacy. The corporation that flouts them will not survive, but the mere satisfaction of these criteria does not ensure its continued existence.

Corporate Behavior as Social Responsibility

Most of the conflicts between large corporations and various social institutions during the last two decades or so in the United States, Japan, and other industrialized nations of the free world fall into the category of *social responsibility*. Although few corporations have been accused of violating the laws of their nations, they have been increasingly criticized for failing to meet social expectations and to adapt their behavior to changing social norms. Thus, *social responsibility implies bringing corporate behavior up to a level where it is in congruence with currently prevailing social norms, values, and expectations of performance.*

Corporations may be special-purpose organizations, but the nature and extent of that special purpose may change over time. Society may realize the magnitude of the negative side-effects of a certain economic activity and find them unacceptable. The need for services provided by other institutions may increase and assume a higher priority than the services of business institutions. Or, the society may find unacceptable the manner in which business institutions distribute goods, services, and income.

Social responsibility does not require a radical departure from the usual nature of corporate activities or the normal pattern of corporate behavior. It is simply a step ahead—before the new social expectations are codified into legal requirements. By adapting before it is legally forced to, a corporation can be more flexible in its response pattern and achieve greater congruence with social norms and therefore legitimacy at a lower social and institutional cost. *While the concept of social obligation is proscriptive in nature, the concept of social responsibility is prescriptive.*

Corporate Behavior as Social Responsiveness

The third stage of the adaptation of corporate behavior to social needs is in terms of *social responsiveness*. The process of adaptation is only partially served if corporations confine changes in behavior to those concerns that emanate from their actions in the marketplace, that is, those totally or partially related to their business activities. Examples of such behavior are installing devices to remove pollutants from factory smokestacks; paying immediate and fair compensation to victims of pollution or

product-related injuries; and ensuring that consumers receive satisfaction from the products they buy. Such changes do improve the congruence between corporate performance and social expectations and increase corporate legitimacy. There will always be a need for corporations to make such short-run adaptations, but much more is called for.

The issue in terms of social responsiveness is not how corporations should respond to social pressures, but what their long-run role in a dynamic social system should be. The corporation here is expected to *anticipate* the changes that are likely to take place. These changes may be a result of the corporation's current activities, or they may be due to the emergence of social problems in which corporations must play an important role. Corporations should initiate policies and programs that will minimize the adverse side-effects of their present or future activities before these side-effects assume crisis proportions and become catalysts for another wave of protest against business. They should also prepare to accept the challenges that the system may come to consider appropriate for corporations to tackle. These activities are characterized as social responsiveness. Again, *while social responsibility-related activities are prescriptive in nature, activities related to social responsiveness are proactive, i.e., anticipatory and preventive in nature.*

The External Environment

We must also develop a schema to distinguish among the various external environments—physical, economic, and sociopolitical—within which a given corporate response to a set of social problems must be evaluated. This has been accomplished by dividing the elapsed time between the emergence of a problem and its solution and ultimate elimination into four categories or stages: the preproblem stage, the identification stage, the remedy and relief stage, and the prevention stage. There is some overlap among these categories because social problems do not fall neatly into discrete groups, nor can they always be solved in distinct successive steps. However, the arrangement facilitates our analysis of the environmental condition and the adequacy of various corporate responses.

The Preproblem Stage

In the process of manufacturing and marketing, business firms are constantly engaged in a series of transactions with individuals and social groups. These transactions have certain direct and indirect adverse effects on the parties involved. One type pertains to the leakages and shortfalls found in any manufacturing activity. To maintain 100 percent quality control in an assembly line of mass-produced products would be impossible—or so prohibitively expensive as to put their products out of reach of most people. Therefore a trade-off must be made between price

and quality. The more gadget-loaded a consumer product is, the greater the likelihood of its malfunctioning because of consumer ignorance or misuse. The same could be said of pollution. To the extent that a firm can avoid paying for pollution, the cost savings should be reflected in lower prices for its products. Thus, both the benefits and costs related to such pollution are accrued to society as a whole. It is ironic that a society demands material abundance, cheaper and safer products, and a cleaner environment from business without recognizing the trade-offs it must make, for all the various costs must ultimately be borne by society.

The second type of negative side-effect pertains to actions by individual firms to cut corners in product quality, service, or manufacturing processes either under competitive pressures or to increase short-run profits. Examples of such activities are shoddy products and services, or higher prices; pollution or deterioration of the environment; product-related safety hazards; and inadequate recourse by the affected parties to legal or political channels because of corporate influence or collusion with law-making or enforcement agencies. Taken individually, each act or incident is not significant in terms of its impact either on the corporation or the affected party. However, when similar acts are performed by a large number of companies and continued over a long period of time, their cumulative effect is substantial. When that happens, a problem is born.

The preproblem stage has both physical and sociopolitical dimensions. The capacity or willingness of a nation to accept and tolerate a level of environmental degradation may keep a situation from accelerating to the problem identification stage. First, the time lag between the creation of a problem and the emergence of its negative side-effects may be quite long. This may be especially true in the case of certain high-technology products, such as drugs and pesticides. Second, problems may be centered in isolated population pockets or geographical areas with insufficient means of communication or dissemination of news. Third, some influential groups may be able to prevent information from being disseminated or prevent its recognition by governmental agencies and political organs. Conversely, an open communication system, availability of mass media, and the existence of politically active groups with technological sophistication may elevate a situation to the level of a crisis before all the necessary evidence is in, thereby inaccurately painting the corporation as the villain.

To summarize, the elapsed time at the preproblem stage is probably the longest of all the four steps. However, there is a tendency for the time span to become shorter with increasing industrialization, whether in the private or the public sectors. Most individuals and institutions respond to the problem passively. The effort is aimed at adaptation and the problem is treated as given. The elevation to the problem identification stage varies

with different cultures and is based on the relative sociopolitical strength of the affecting and affected groups, the availability of necessary expertise to various groups, the size of the affected area relative to total area and population, the existence of mass communication systems in the society, and the access to media by various groups.

The Identification Stage

Once a problem has become large enough and its impact significant enough, there is a drive among the affected groups to define the problem, identify its causes, and relate it to the source. This is one of the most difficult stages in the whole process. Quite often the business entity could not have known of the problem because technology for its detection did not exist. Therefore, the most responsible businesses following the best safety procedures will be found years later to have polluted the environment, exposed their workers to rare forms of cancer, or sold potentially dangerous products. In most cases, direct linkages between cause and effect are all but impossible. The best that can be accomplished is to show through inference and statistical weight of evidence that a given source was the major contributor to the problem. This is especially true in many pollution cases, because a toxic chemical may go through several links in the biological chain before being consumed by human beings. Kepone, a pesticide manufactured by Life Services Corporation for Allied Chemical Co., which was discharged in the James River in Virginia, U.S.A. (U.S. Senate, Hearings before the Committee on Agriculture and Forestry on Kepone Contamination, 1966), and methyl mercury, which was discharged into the Minamata River by the Chisso Corporation in Japan (Sethi, 1975b) are two such chemicals.

Another problem arises when a given adverse effect can be caused by a variety of sources or factors, making direct linkages impossible to establish. A case in point is that of cigarette smoking and lung cancer. Despite overwhelming statistical evidence, tobacco companies in the United States continue to maintain that no direct cause-and-effect relationship has been established between smoking and cancer (Sethi, 1978, in press). A third problem arises when no adequate definitive proof is possible because the symptoms appear years later—e.g., cancer caused in workers in the manufacturing processes that used asbestos fiber (Brodeur, 1974) or polyvinyl chloride (Weaver, 1974). A fourth problem deals with situations in which irreparable damage has been done by the time proof is available and no corrective or preventive measures are possible—e.g., the use of fluorocarbons in aerosol sprays and their impact on the ozone layer of the stratosphere (*Business Week*, February 17, 1975: pp. 50–51).

The definition of the problem may also involve the vested interest or value-orientation of a particular group. Thus conservationists may be-

moan the logging of virgin redwoods and call it a national calamity, whereas local communities and loggers may want to preserve their jobs and may therefore resist the establishment of a redwood national park. What is a problem to one group may appear to be an obstruction to another (Sethi, 1977a: pp. 33-51). Other examples of divergent viewpoints are the building of the Alaska oil pipeline, nuclear power plants in Bodega Bay, California, and Seabrook, New Hampshire, and the new Tokyo international airport.

The Remedy and Relief Stage

Once the causal linkage has been established, there arises the question of compensatory and/or punitive damages to the affected parties. This stage is marked by an intense amount of activity by the various parties to the conflict. There are many issues involved. One is a determination of who are the injured parties and what is the extent of their damage. The injured parties may not be the persons who were directly injured, but their families and dependents. Another question has to do with the assumption of responsibility for payment of claims, e.g., the company and the insurance carrier. An equally important issue is the role played by courts, legislatures, and executive and administrative agencies of the government.

There are certain interrelated issues that must be considered. For example, is it socially desirable to make companies pay all the costs of a particular type of pollution that was not intentionally created? If a particular business or industry is forced to pay the total cost, how would this affect workers, stockholders, and lenders whose livelihood and life savings may be dependent on the profitability of that business or industry? The effect of the health of a particular industry on the total economy is also important in considering who should pay for the damages. Thus, sometimes government may be called upon to subsidize payments regardless of which party is at fault. A case in point is U.S. government subsidies to support pension payments to coal miners who had suffered black lung disease during a particular time period.

The Prevention Stage

At this point the problem has achieved a level of maturity. The causal sources are either well established or easily identifiable. The attempt now is to develop long-range programs to prevent the recurrence of the problem. These include development of substitute materials, product redesign, restructuring organizations and decision-making processes, public education, and emergence of new special-interest groups to bring about necessary political and legislative changes. It should be noted that the prevention stage is not sequential but generally overlaps with the problem

identification and remedy and relief stages. The prevention stage, in order to be successful, calls for two changes: a qualitative change in the value sets of business and government, and modification of the social arrangements among various groups in the social system.

In developing preventive measures, a distinction should be made between the source and the cause of the problem. For example, product-related hazards may be due to poor manufacturing techniques. They may also be due to improper use by the consumer. Thus one remedy may be product reengineering, where any additional costs are passed on to all users. Another approach may be consumer education; now consumers using a product improperly would be expected to bear the cost of their own mistakes.

This stage is marked by considerable uncertainty and difficulty in making an accurate appraisal of potential costs and benefits. The strategies to be pursued by society would, of necessity, involve unproved technologies and unfamiliar sociopolitical arrangements. Thus, it is not uncommon to find a high degree of self-righteousness in the pronouncements of various groups, which may be long on rhetoric but short on substance. Groups tend to advocate solutions that favor their particular viewpoint, while understating the potential costs to those groups having opposing viewpoints. The conflict is also heightened by the fact that while most of the costs are likely to be borne by present members of the society, most of the benefits are likely to accrue to future generations. Therefore, in order to bolster their claims and positions, different groups vie for the right to speak for posterity. The ideological antibusiness bias of certain groups at this stage could be as harmful to the development of socially equitable and technologically feasible long-term solutions as the tendency among some business people to resist every demand for change as technically unfeasible, expensive, or unnecessary.

COMPARATIVE ANALYSIS OF JAPANESE AND AMERICAN BUSINESS RESPONSE PATTERNS

The Data

The data for analysis consist primarily of in-depth case studies in Japan and the United States. This is supplemented by an extensive survey of additional cases to verify the observations derived. A variety of criteria were used in the selection of cases. They had to deal with an incident that is part of a general problem involving a number of corporations and other groups in similar situations. The incident must be national in scope and affect a significant number of people and institutions, public and private.

The incident must cover a time span over a number of years and as many stages of our analytical structure, from preproblem to prevention, as possible. For obvious reasons, no attempt was made to exactly match the cases selected for study in Japan and the United States. The cases fall into three general categories: pollution of the environment, consumer-related problems, and business attempts to influence governmental decision making.

For Japan, the four cases of major pollution have since received worldwide notoriety. These were the Minamata disease case (methyl mercury poisoning) involving the Chisso Corporation; Minamata II involving the Showa Denko Company; the Itai-Itai disease involving the discharge of cadmium in the Jinzu river by Mitsui Mining Company and reaching humans through fish consumption; and the Yokaichi asthma case involving six petrochemical companies' plants in a particular geographical area and the combined effect of all the plants on air pollution (Huddle and Reich, 1975; Sethi, 1975b: pp. 81-88; Tsuru, 1971: pp. 6-13). In the area of consumerism, three cases were investigated: the Morinaga milk poisoning case involving the Morinaga Milk Industry Company, price fixing and hoarding of gasoline by major oil and holding companies during the energy crisis of 1973-74, and product-related consumer hazards in the color television and automobile industries (Gunji, 1969; Kitano, 1971; Sethi, 1975b: pp. 96-107; Takeuchi, 1972). In the area of improper influence over governmental decisions, the Lockheed bribery case was selected (Kotchian, 1977).

For the United States there were five cases dealing with pollution and conservation: the Santa Barbara oil spill involving the Union Oil Company; Pacific Gas & Electric Co., San Francisco and the establishment of a nuclear power plant; Georgia Pacific Company and the establishment of Redwood National Forest; dumping of Kepone in the James River in Virginia involving the Allied Chemical Corporation, and dumping wastes into Lake Superior from a taconite processing plant by the Reserve Mining Company, which is jointly owned by Armco Steel Corporation and Republic Steel Corporation (Schaumberg, 1976; Sethi, 1977a; U.S. Senate Committee on Agriculture and Forestry, 1976). There were four cases dealing with hazardous products and services: *Stevens v. Parke Davis Co.*, overpromotion and use of the broad-spectrum antibiotic drug chloramphenicol; health hazards related to cigarette smoking; Acme Markets Co., Philadelphia, unsanitary conditions in food storage in a warehouse of the supermarket chain; and Children's Television Advertising and Programming (Sethi, 1978, in press). There were three cases dealing with improper influence on government: illegal payments and political campaign contributions in the United States by International Telephone & Telegraph Corporation, Northrop Corporation, Gulf Oil Corporation, and

Lockheed Corporation (Sethi, 1977a; McCloy, 1976; U.S. Senate Committee on Banking, Housing and Urban Affairs, Hearings on Lockheed Overseas Payments, 1976).

The Preproblem Stage

An analysis of the activities of Japanese and American business practices showed *no* discernible differences in their behavior or in responses to social pressures. The business stance was in the "social obligation" mode, where responsibility was interpreted in the strictest legal sense. The companies denied they were doing anything illegal, and strongly resisted furnishing any data on the ground that it was confidential information, or that it had no bearing on the issue. Another measure used by individual firms was to compare their behavior with those of their competitors. When there was no difference, the firms would plead inability to undertake corrective measures that would place them at a competitive disadvantage.

Another approach was to downplay the impact of the damage on the environment, or groups adversely affected, by dismissing them as exaggerations by vocal minorities or self-appointed public interest advocates. This tendency was even more pronounced in Japan, where the socio-cultural environment is extremely hostile to dissent against an employer or senior: a dissenter ordinarily finds little support among peers at work, in the union, or in the community.

When some negative effects became too visible or significant to be dismissed, two approaches were used to explain them. One was to point out to the public that some adverse effects or unforeseen social consequences were unavoidable and must be borne as the necessary costs of social and economic progress. The benefits, in any case, far outweighed social costs. Second, public and governmental wrath was avoided by resorting to the "rotten apple" theory—the implication that it was only a few firms who were negligent and who cut corners, that the industry as a whole had an excellent record and no public investigation, accountability, or controls were necessary.

The important point to note is that a different cultural milieu in Japan has not induced a different type of business behavior. Perhaps the nature of private enterprise or the modern industrial sector generates similar responses. Future research on this issue should be highly fruitful. Furthermore, although I do not have systematic evidence, I sense a greater amount of violation of actual laws in the preproblem stage by corporations in Japan than in the United States. Perhaps the reason lies in closer business-government relations in Japan. Japanese traditionally resort more to informal arrangements and accommodations than to legal recourse. Japanese business may have less to fear in terms of government

reprisals and penalties than American business. As we shall see later on, this assumption has been amply borne out in practice.

The Identification Stage

During the identification stage, the practices of Japanese and American businesses were also essentially similar. However, there are some notable differences.

As a first step, both Japanese and American firms denied the existence of the problem and its alleged severity. Where this was not possible, they attempted to show that no direct causal linkage existed. An important difference between U.S. and Japanese firms lies in the area of research to determine cause-effect linkages. U.S. firms engage in heavy in-house research; they also support outside research efforts either alone or jointly with industry. The former is undertaken to protect the firm from competitive pressures, product liability and civil damage suits by private individuals, and civil and criminal suits by government agencies. The latter approach is undertaken to provide evidence of good faith, gain public trust and confidence, spur joint industry efforts to share the costs and develop a united front, and diffuse demand for governmental action and control. Although no hard evidence is available, my research indicated isolated cases in which U.S. firms may have deliberately refrained from carrying out any research for fear that unfavorable findings would make the firm liable for damages in the future.

In the case of Japanese companies, more aggressive behavior was evident. In many cases, Japanese firms actually impeded investigation or research by outside private and university-related organizations to isolate the causes of the problem. In this they seemed to have the tacit support of important governmental agencies, e.g., the Ministry of International Trade and Industry (MITI). When not actually impeding investigations, they refused to provide any assistance, financing, data, or technical services to encourage such research. I know of no case where Japanese companies have actively cooperated in research activities leading to the identification of a problem or its cause in pollution or market-behavior incidents. This is true in the Minamata, Itai-Itai, Yokkaichi asthma, and Morinaga milk poisoning cases and in a host of others.

This behavior is not hard to understand when we consider the nature of the Japanese social system. Big firms have always been held in awe by the masses. Loyalty toward company and government is such that complaints have a hard time securing sympathy, expert advice, or support from other social institutions. For example, in the Itai-Itai case, the company involved, Mitsui Mining, was so big and highly respected that the local community and company workers refused to believe until quite late in the dispute that such a large company could be guilty of pollution-related

crimes. Indeed, there was active hostility toward the victims and their families, who were called "trouble makers" and therefore disrupters of the community's peace and harmony. Furthermore, because of the one-to-one loyalty relationships and groupism of Japanese society, the companies, government, and academic elites form one establishment. Dissidents were always a minority and could not get endorsement or assistance from university experts, most of whom, with a few significant exceptions, have sided with the companies.

Here again the close cooperation between business and government works to the detriment of the public at large. At the national level, government sees the companies as essential tools for furthering its goal, the elevation of Japan to the stature of an economically strong, industrialized nation. Such a policy requires continuous expansion of production, high economic growth, and maintenance of a high level of exports. This goal fitted admirably with those of the private enterprises, who were only too willing to cooperate. If, in the process, shortcuts hurt some communities and people, they were written off as necessary sacrifices.

Another important distinction between Japanese and American business practices pertains to the role of protest groups. In Japan, protest groups are unable to enlist nationally known leaders from other social groups to assist them. This is because in Japan an individual belongs exclusively to one particular group and interacts only with other individuals in that group. The likelihood of a Ralph Nader emerging as a popular hero is minimal in Japan. Thus, objective third parties with impeccable credentials are unavailable to the protesting groups, either as leaders or mediators.

In the United States, a person can utilize a number of groups to represent his various interests. Establishment leaders like John Gardner and Stewart Udall can easily represent protesting groups against the Establishment without losing their credibility or social status. Thus groups with legitimate gripes find it easier to gain visibility and bring public pressure on business and government.

The news media play an important role in the United States by acting as catalysts for public opinion by creating national awareness of a problem. Quite understandably, both business and its opponents constantly strive to manipulate the news media through the creation of news and "contrived events." In this, dissidents have been far more successful than businessmen, with the latter group complaining of an antibusiness bias in the media.

The Remedy and Relief Stage

Litigation. Most of the cases studied in the United States and Japan have been marked by long and bitter litigation. Although no systematic

data are available, it was found that U.S. companies had a greater tendency toward making out-of-court settlements in cases of personal injury or where the plaintiffs were private parties. This may be partially due to the fact that juries have been awarding increasingly larger damages against the companies, and courts have not been reluctant in imposing stiffer sentences. In cases involving government agencies, the tendency has been to fight vigorously in order to limit liability. Another approach is to work out consent agreements that proscribe certain forms of corporate behavior in the future without the corporation's admitting any past violations of the law.

In Japan the situation is somewhat different and has also changed in the last few years. For example, in the four pollution cases, as well as in the Morinaga milk poisoning case, the companies involved tried every means possible to harass the litigants for continuing with their claims. In this effort they were supported by the government as well as an archaic court system. Furthermore, as mentioned earlier, the plaintiffs were restricted in their efforts by the lack of community support and the nonavailability of expert opinion. However, the situation took a major turn between 1970 and 1973. First came the passage of two laws in 1970: the Law for the Punishment of Environmental Pollution Crimes Relating to Human Health, and the Law Concerning Entrepreneurs' Bearing of the Cost of Public Pollution Control Works.

Second, following United States practices, the courts became more sensitive to the hazards of pollution. Instead of insisting on the establishment of a definite causal linkage, they began to accept "probable cause" as sufficient grounds for deciding pollution-related cases in favor of the plaintiffs. The result was that in 1972-1973 all the major pollution cases we have mentioned were decided in favor of the plaintiffs, thereby giving business a warning as to what to expect in the future. However, the actual damages awarded were only a small fraction of the amount asked for.

Solatium. The practice of solatium is unique to Japanese business. Once a linkage, no matter how tenuous, is established identifying a firm as the culprit, an initial attempt is made to settle the case informally—often with some government official as mediator—by paying a token amount for mental solace called a solatium to the injured parties. This is a quite common practice and is used as symbolic compensation for physical and mental suffering. In the pollution cases, both business and government approached the problem by offering solatium. To date, however, the punitive damage aspect of blame is generally absent and there is little recognition of the potential victim's right not to be exposed to health hazards.

It should be mentioned here that Japanese corporations make a sharp distinction between Japanese and non-Japanese sufferers. For example, in

1973 Japan Airlines paid a solatium to the Japanese families of victims of a JAL airplane crash, but refused to do the same for the non-Japanese families, although many of them were in Japan. The resultant public resentment and adverse publicity were so intense that JAL finally yielded and made payments to the families of all the victims involved in that crash. My study of the operations of Japanese corporations in other countries (South Korea, Taiwan, and Thailand) also shows that the solatium is paid to Japanese employees only and creates a source of friction between the companies and their local employees (Sethi, 1975b: p. 116).

Bargaining. The counterpart of solatium in American business is found in bargaining negotiations that take place between the parties in an effort to achieve an out-of-court settlement. Bargaining is carried on even when the formal court proceedings are underway. But unlike solatium, bargaining is quite impersonal and is conducted by the attorneys for the two sides with or without the assistance of a mediator. The formal court proceedings are used to protect one's legal remedies and as leverage for the other party to negotiate for a settlement. The approach is highly rational: both parties are expected to give up some advantages and gain some benefits. There is no thought of assessing fault or admission of guilt. The whole idea is to settle the case as a unique situation and not make it into a precedent other parties can use.

Quite often this "industrial relations or bargaining response" does not work when it is applied outside the traditional framework of management and labor relations (Sethi, 1973b: pp. 191-273). It assumes that both sides have something for each other, have a stake in the survival of the system, and are working toward clearly defined long-run objectives. Unfortunately, when it comes to new social groups, these assumptions do not hold true. These groups may view "the system" differently, may have greater willingness to fight because they have very little to lose, and may not have formulated their own long-run objectives. A case in point is that of Eastman Kodak's negotiations with a militant minority group called FIGHT, which was demanding that Kodak provide 600 jobs for members of minority groups (Sethi, 1970).

Any settlement by the company is treated as tactical advantage by the other party, which then presses for further gain. There is seldom any thought of implementing the agreement because the other party does not play by the same rules. Furthermore, in a large number of cases, the new social groups are quite splintered, lack internal discipline and control, and have a leadership incapable of enforcing such agreements. A corporation is thus in a very difficult situation even when it wishes to make a reasonable settlement because of the opposition's instability. The attempt is therefore to search for new approaches with often uncertain outcomes.

Public Relations. In responding to social pressures, U.S. companies rely heavily on public relations in their effort to enlist public sympathy and support. The underlying rationale for this approach is a belief on the part of the corporations that the legitimacy gap between their behavior and societal expectations is based on ignorance and misinformation about businesses' activities. The emphasis is therefore on a change in public perception of corporate activities via publicity campaigns to inform the public of the legitimacy of the behavior being challenged. Another strategy is to change the symbols of corporate behavior—that is, publicize corporate behavior and activities in a manner that makes them appear to be in greater congruence with public expectations. Most of the available evidence indicates that such strategies are not successful when they are not accompanied by a comprehensive program of corporate action dealing with the issues which are the source of conflict (Kristol, 1976; Sethi, 1977b; Ways, 1972; Whyte, 1952).

Japanese corporations do not feel that the congruence gap is based on misinformation. To imply a need for education on the part of dissidents or other members of society would be tantamount to calling them ignorant or uninformed. This would be insulting the other person and causing him to lose face, something one does not do in Japan. Therefore, the emphasis is on understanding the reasons for the congruence gap and—without necessarily accepting them—trying to modify corporate behavior, both cosmetically and substantively, to mollify the opposition and avoid conflict.

Ritual and Ceremony. Ritual and ceremony play an important part in the settlement of disputes in Japan. The company may make a public admission of guilt and offer a public apology to the victims. This was done, for example, in the four pollution cases and in the Morinaga milk poisoning case and was an integral part of the court settlement. In other cases, the heads of C. Itoh & Co. and Nissho-Iwai, two of Japan's leading trading companies, publicly admitted violating Japanese laws by hoarding raw materials and hiding excessive profits. During the recent energy crisis, the head of an oil industry group admitted making false statements in public denying the existence of an oil industry cartel. Public apology satisfies the emotional content of Japanese interpersonal relations. The victim feels a sense of betrayal when his superior, company, or government is found to have behaved in an undesirable manner. Consequently, no amount of monetary compensation can substitute for a personal admission of guilt.

Another form of ritual is for an executive in the firm to publicly admit "sole" responsibility for the alleged crime and resign from the company. This was done in the case of General Sekiyu K.K., a major oil company. The head of the firm resigned when it was found that the marketing

department of the company had circulated a memorandum to its salesmen outlining how they could pressure retailers into charging higher prices for gasoline in violation of government regulations (*Mainichi Daily News*, February 9, 1974: p. 6). In another case, Yasutaka Konishi, president of Toho Zinc Company, "resigned in atonement" from the company presidency. The company was under investigation for covering up contamination of rivers near its zinc mining plant on Tsushima Island north of Kyushu. Konishi stated that it was his responsibility that "our company failed to regard the pollution problem seriously" (*Mainichi Daily News*, April 11, 1974: p. 4).

An interesting recent example of the Japanese insistence on formal apology involved the victims of the Turkish airlines crash of a McDonnell Douglas DC-10. The settlement of the Japanese claim was delayed because the Japanese insisted on an apology by McDonnell Douglas and General Dynamics and payment of punitive damages to show admission of wrongdoing (*Wall Street Journal*, April 18, 1977: p. 5).

There is a reverse twist to ritual and ceremony in the case of Japanese business that should also be kept in mind. This has to do with symbolic conformity to public standards while substantively violating them. Consider, for example, the widespread use of paid professional thugs, called *sokaiya*, by most of Japanese companies to intimidate shareholders at stockholders' meetings and deter them from asking embarrassing questions of management. The *sokaiya* system was developed after the war when Japanese companies were forced by the Occupation authorities to accept public ownership together with shareholders' meetings. (In prewar Japan most large businesses were privately owned and their managements were immune from public criticism.) According to an article by Pearlstine in *The Wall Street Journal* (May 29, 1974), the *sokaiya* system

exemplifies the Japanese facility for embracing Western forms without compromising traditional practice. . . . Japanese executives dutifully accepted the new form [imposed by the American authorities], but in practice they rejected the idea that small shareholders should be allowed to criticize them. (p. 1)

Japanese law "prohibits direct payment to *sokaiya* in return for shareholders meetings." However, this has not been an effective deterrent. According to the Japanese police, all but 11 of the 1,383 companies listed on the Tokyo stock exchange use *sokaiya*. Moreover, once hired, it is extremely difficult to get rid of the *sokaiya* because they have not been averse to the use of blackmail and violence in order to keep their services in demand.

Another example of the difference between form and substance is to be found in the accounting method used by Japanese firms and the nature of

the inspection and control exercised by the Ministry of Finance's securities department. In May 1974, Nihon Netsugaku Kogyo Company, an Osaka-based manufacturer of air conditioners, and Aeromaster, its principal subsidiary, went into bankruptcy leaving debts of \$220 million. This was the biggest corporate bankruptcy since World War II. Before its collapse, there was little public indication that such an event was imminent. Apart from shattered public confidence and hints of criminal activity and fraud, the case revealed the following points: (1) Japanese and United States securities laws read the same but they are not used in the same way. The Japanese Securities and Exchange Act, which was adopted during the United States Occupation, is almost a carbon copy of the United States Securities Act of 1933 and the Securities Exchange Act of 1934. However, Japanese securities laws play an insignificant role in preventing fraud or providing compensation to the victims. (2) Japanese corporations cannot be judged by their financial statements.

In spite of all the trappings of a formal legal process, neither the government agencies nor the courts have shown any interest in law enforcement of the type practiced in the United States. Nor can the investor depend on an American type of independent auditor, a species anything but independent in Japan. Instead, the shareholder or lender must depend for integrity on the reputation of the firm and those of its banker, suppliers, and major customers.

Government regulation takes the form of strong "administrative guidance," or moral suasion, over Japan's four largest brokerage houses [and] counts on them to keep in line the corporations they service and the rest of the brokerage industry" (Pearlstone, 1974: p. 1). It does not necessarily amount to effective law enforcement or work in the public interest. For example, in 1973 government prosecutors had enough evidence to indict three of the four largest brokers for alleged manipulation of the stock of Kyodo Shiryō Company, a leading Japanese feed producer. However, the Finance Ministry's securities department dissuaded the prosecutors from bringing any indictments "because top officials of the houses involved were 'self-reflecting' on their companies' actions and had promised to stop all manipulative practices" (Pearlstone, 1974: p. 1).

In analyzing the behavior of the Japanese firms, Kobayashi (1974) suggests that there is a great discrepancy between the principles Japanese businessmen proclaim and their true intentions. In order to avoid criticism from stockholders, consumers, or other social groups, they take refuge behind rhetoric by declaring their social responsibility, promising to refrain from raising prices, and so on. However, they are unable to carry out their promises because of the uncertainty of their rivals' actions in the marketplace and their belief that regardless of their actions, people are not likely to believe them anyway.

This personal involvement is absent in American corporations. Corporate executives make a sharp distinction between personal ethics and business behavior. Consider, for example, the position of General Motors' former president James Roche in the case of his company's involvement in the investigation of Ralph Nader. When the news first broke, he issued a statement denying that his company was involved. However, when it later turned out that his company was indeed involved, he said that he took responsibility for the act of GM's officers. He implied that he really could not be held *personally* responsible, since in such a large company as General Motors it is impossible for the chief executive officer to know or condone the excesses of his subordinates. Needless to say, there was no mass disapproval, especially in business circles, of Mr. Roche's position (Sethi, 1977: pp. 353-68).

More recently, during the investigation of the Watergate scandal, it was found that a large number of major corporations made illegal campaign contributions to President Nixon's reelection campaign. In addition, according to data inserted in the *Congressional Record* (January 22-24, 1974: E87-88, 141-42), officers, directors, and some stockholders of the oil and gas industry contributed about \$5.7 million to Nixon's reelection campaign. Less than twenty companies were convicted and fined up to \$5,000, and the executives directly responsible for making the illegal contributions fined \$1,000 each. The only resignation to stem from this scandal was by the vice president of Gulf Oil. Note that not a single company fired its executives for making contributions. Nor did any of the executives, with the exception of the Gulf vice president, offer to resign from their jobs.

In the area of questionable payments abroad, more than 175 firms have made disclosures to the Securities and Exchange Commission involving \$300 million during 1970-1976 and the end is still not in sight (Adams and Rosenthal, 1976; Herlihy and Levine, 1976: pp. 547-630). Unlike the Japanese, the standard responses of most of the corporate executives involved were to the effect that the illegal payments were made without their knowledge and by their subordinates. Furthermore, these payments were made as legitimate commissions and were a necessary part of doing business abroad. It was also argued that the U.S. should not impose her ethical and moral standards on other countries.

Notwithstanding the various reasons offered, no corporate executive assumed personal liability for these actions. This may be partially explained by the distinction that Americans make between personal and corporate ethics. While personal behavior is subject to one's own sense of values, corporate behavior is governed by contractual obligations, legal constraints, and market forces. Moreover, if a corporation or its executives publicly accept blame, they may be held liable for civil or criminal

damages. There is also the element of public ridicule and humiliation, which American executives would be unwilling to accept in the current cultural and social context.

Rhetoric. Another major difference between the responses of Japanese and American corporations is in the type of rhetoric used to explain the corporate position.

Japanese business and trade associations specifically recognize and publicly state that a corporation's responsibility to its stockholders or employees transcends its responsibility to society. Criticizing the behavior of Japanese corporations, Professor Nobuo Noda, a noted Japanese management scholar, states that the "three conditions required of the corporation were to produce a profit, provide for the welfare of the employees, and be responsible to the society. This third condition has not, until the present time, been given ample consideration by Japanese enterprises" (Noda, 1972: p. 8). Noda advocates the establishment of "civil minimum" and "civil maximum" standards for the social impact of corporate activities—for example, in the case of automobile engine capacity and jet plane noise levels—indicating that if "private enterprises do not turn in this direction, then, they will lose their very basis for existence." In a similar vein, Norishige Hasegawa, President of Sumitomo Chemical Co. Ltd., accuses Japanese companies of "social dumping" by neglecting their responsibility to prevent pollution and to pay for environmental protection. He lays down three prerequisites that a private enterprise should follow:

1. It must strive to continue to exist.
2. Business is a part of society, and therefore it must be responsible for the protection of the environment.
3. If its activities cause environmental damage, it should not survive.

In an editorial, *Management Japan* (1973), one of the leading Japanese management journals, exhorted business managers to "work only for the true meaning of eternal existence of human society" and notes that "such an attitude could fully function only on the basis that the business' social responsibility never be a part of corporate strategy and tactics but ought to be a part of the *corpus* itself" (p. 4). In another statement, Kenichiro Komai (1971), president of Hitachi, Ltd., declares that:

The development and growth of a firm is inextricably intertwined in the sound and stable progress of society [and therefore] lasting prosperity, in the present industrial society, will be hard to attain by merely pursuing profit. An enterprise must seriously

commit itself toward solving the problems of society and lend a helping hand to mitigate the hardships of the public. (p. 6)

Japanese trade associations have added their voice to self-criticism in the area of social responsibility. For example, Mr. Nagano, chairman of the Japanese Chamber of Commerce, recently stated that the final objective of the firms was to increase social welfare. Mr. Sakurada, chairman of the Japanese Federation of Employers' Associations (Nikkeiren), stated that top executives should first meet their own social responsibility ideals before blaming others for criticizing corporations. Mr. Kikawada, representative director of the Japan Committee for Economic Development, declared that businessmen should not look at society from the firm's viewpoint but should look at the firm from society's viewpoint (*Asahi Shimbun*, June 24, 1973).

How does this rhetoric compare with that of American corporations and industry and trade associations? With the sole exception of the Committee for Economic Development (CED), industry and trade associations have either taken no position on the issue of corporate social responsibility or have been hostile to groups seeking to broaden the area of corporate responsibility. This is not true of big business, where a large number of executives have been speaking out in favor of increased corporate participation in solving some of the nation's social problems. However, they insist that corporate action must be voluntary in nature and that corporations must decide for themselves where their activities can be most useful. While there is a certain logic to this approach, the practical result has been to make corporate social responsibility mean what anyone wants it to mean, thereby making some type of public accountability all but impossible.

The Prevention Stage

Societies and nations are living organisms, continuously changing and evolving. Social institutions must also change and adapt. Those who anticipate changes in the environment react to them positively and thereby survive and grow. Those who do not, stagnate and die. This discussion might lead one to conclude that despite significant differences in sociopolitical environment and management philosophies, neither Japanese nor American business has succeeded in maintaining public trust and confidence, or in fulfilling changing societal expectations. I believe that Japanese corporations have failed because their secure environment has made them insensitive to changing public expectations and the negative side-effects of their activities. American corporations have failed because their short-run, pragmatic approach has led them to ignore the long-run consequences of their activities.

There are, however, indications that both are now moving in a different and more positive direction. Given the necessary will, both the Japanese and the American corporations can successfully respond to anticipated social changes—the former through long-range planning and mutual cooperation, and the latter through improved response to other social institutions whose support they need and through their pragmatic ability to solve problems before they get out of hand.

In Japan both trade associations and individual corporations have moved boldly in developing codes of corporate conduct. The notion of public accountability for corporate actions has also gained wider currency. Similarly, both at the government and the corporate level, the principle of “polluter pays” has been accepted as the basis for work on environment-related problems. In addition to developing standards of behavior, corporations are taking specific steps to forestall further public complaints and avoid future problems. Many companies have donated large tracts of land to local communities for parks, recreational facilities, and community-related uses. This land was originally acquired for expansion or new construction of plants and manufacturing facilities. Firms are also paying increasing attention to community feelings before erecting new plants and, despite legal approval, abandoning many projects where strong community support does not exist.

The Japan Auto Industry Conference, composed of automobile manufacturers, announced in August 1973 that each manufacturer will make provision for disposing of abandoned cars of his make. This decision presumably resulted from public pressure about the cars littering the country and the new government policy of holding manufacturers responsible for discarded tires. Led by Mitsui, most trading companies and some manufacturing companies are setting up American-style philanthropic foundations. More than 40 companies have announced plans for setting up foundations or funds for philanthropic activities. Progress, however, is likely to be slow as Japan’s government is slow in approving foundations and offering tax incentives for them.

The proactive mode of response in the United States has been a mixed success. Despite industry and individual company efforts, there has been no progress toward the development of a general business code of ethics. The prospects are minimal that a meaningful code will be developed in the near future, and if developed, will be enforceable. The coercive aspects of any enforcement program are likely to run up against strong individual resistance and legal restraints.

Competitive pressures and antitrust implications are also likely to inhibit any industry-wide efforts to develop technologies for pollution abatement. However, here the government is becoming a catalyst. Since corporations often consider government-imposed standards expensive,

impractical, or rigid, they have begun to develop their own responses in anticipation of public and government demands. Here competition has become a positive force to spur companies to develop improved technologies. A pluralistic political system also creates pressure points to which corporations must react, and some companies are developing responses to avoid future pressure by outside groups. There is also an increasing appreciation of the fact that in the past some minority groups and women have not received their fair share of the socioeconomic opportunities, and companies are making genuine efforts to correct the inequities.

All these are slow and hesitant steps because there is a great deal of uncertainty about the shape of the future and the effectiveness of the tools now being developed to cope with it. The best that one can hope for is that all involved will continue to work toward a process of constructive adaptation and change.

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RESEARCH ON PATTERNS OF CORPORATE RESPONSE TO SOCIAL CHANGE

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I. INTRODUCTION

Field in Search of a Focus

Twenty years ago, William Foote Whyte described the study of human relations as a "field without a focus." His point was that while many people understood the importance of the field there had failed to emerge a coherent framework for its study. More recently, Preston (21) has argued that the study of corporation and society relationships is still in search of a paradigm, or in Whyte's phrase, a "field without a focus."

Frustrating the search for a paradigm is the intrinsic difficulty of designing research that will specifically illuminate critical corporation-society issues, since theory and research design are reciprocally linked. Tradi-

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tional disciplines may be limited in their perspective, but they provide both theory and methodology by which inquiries can be pursued. The absence of a central conception in the corporation–society area corresponds to the absence of a methodological base from which basic research into the subject can evolve. We are faced with a chicken and egg dilemma; must the integrative theory precede the research design, or vice versa? In this paper, that question is discussed in the context of a line of continuing research into the manner in which corporations respond to social change.

The Design of Inquiry

Relatively few specific corporation–society studies have been conceived, designed, researched, and published. Among them are those by Ackerman (1), Murray (14), Post (17) and Sethi (24,25). Because research design has been a particularly thorny issue in this field, and because research design is intrinsically tied to the search for an integrative theory, it is useful to raise the question of how one goes about creating an inquiry into the study of the corporation and society. Two distinct approaches have been popular to date. One approach, illustrated by the Ackerman (1), Murray (14), and Council on Economic Priorities (8) studies, selects a current corporation–society issue (pollution, minority affairs, employee safety), examines its life history, and analyzes the manner in which it has affected particular firms and/or industries. This approach often leads to intra-industry comparisons of particular firms' responses to the same issue and to comparative histories of the life cycle of, and responsiveness of industries and firms to, different social issues. An alternative approach, illustrated by Orren (15) and Sethi (24), is to select a proposition (e.g., the purpose of all management activity is to maximize control over the use of assets) and test it across a sample of firms and/or industries. As Mintzberg (13) has pointed out, the inductive and deductive approaches these examples suggest are extremes which, in other fields, have become integrated parts of the scientific approach to the development of knowledge. However, this integration of inductive and deductive research has not yet emerged in the study of the corporation and society.

Churchman (7) has argued that there is no single "scientific" approach to the development of knowledge in a field. Rather, there are a variety of historically recognized approaches to research that differ most significantly in terms of what "guarantor" endorses the validity of their findings. At their best, methodologies (sampling, experimenting, etc.) reflect different kinds of known statistical or mathematical "guarantors." In a field such as corporation–society relationships, however, where the central issues are broad in nature and defy the narrow sophisticated research methods that have known guarantors, we must look to the underlying

design of research to determine what ensures the validity of findings. In part, this becomes a matter of clearly framing the central questions and asking what is appropriate to their analysis.

Several years ago, at an annual meeting of the Academy of Management, a session was held on research developments in the corporation-society field. During the meeting, questions were raised as to where the central research questions lay, and how more sophisticated methodologies might be brought to their analysis. Robert Ackerman, well known for his studies in the area, responded that while endorsing the call for the application of more sophisticated methods to research, it should not be overlooked that the corporation-society area is inhabited by a great many "elephants." It is a field replete with very large issues and problems that defy methodologies of intensive, but narrow, perspective.

The need for a holistic framework in designing research becomes clear when one looks at a specific case. A brief personal example illustrates the point. Until several years ago, the bulk of studies in the corporation-society area focused on a specific social issue and its impact on a particular industry and member firms. Inter-firm comparisons had been made, but no one had studied how the management of a single firm simultaneously responded to many different issues, each at a different stage in its own life history. The beginnings of a corporate responsiveness model, as articulated by Ackerman and Bauer (2), Preston and Post (22), and Votaw and Sethi (26), had suggested a process involving managerial awareness of an issue, commitment toward response, and actual implementation. However, this model had not been tested in the context of a single firm facing many issues.

To analyze this question, it was necessary to find a candidate firm that would allow itself to serve as the research case. Once such a firm was found and the study initiated, it became clear that the responses of the firm to different issues could not be comprehended without knowing something about the factors motivating its management, the role of the firm in the industry, the historical development of the company, and the history of the industry itself. To understand these, in turn, one had to look at other historical analyses of the evolution of the industry and the many competitive trends that had shaped it during that time. The result was not a narrow study of a specific question, but the pursuit of an elephant! To understand how the management of Aetna Life and Casualty responded to an agenda of public issues in the early 1970s, it was necessary to go back to the very beginning of the American insurance industry and trace two hundred years of market trends, public policy trends, organizational trends, and regulatory trends. It was only against the backdrop of this continuous industry and social history that one could analyze the nature

and character of the Aetna's responses to change in the 1970s (17). In this research, the guarantor of validity was not a proven methodology, but the conceptual framework that facilitated the study's design.

Where Ignorance Lies

Kenneth Berrien has argued that it "is only by erecting conceptual frameworks that we discover where ignorance lies, and take appropriate steps to fill the gaps" (4, p. 60). The necessity of conceptual models to illuminate areas where gaps in knowledge exist can be illustrated by a brief recounting of the way in which the "interpenetrating systems" model evolved. In 1972, Lee Preston and I began to address ourselves to the literature of the corporation-society area. But the idea of doing a literature search of the area proved both difficult and frustrating. Try as we might to organize it, the literature seemed to go off in so many directions, embracing so many issues and topics, that it seemed to defy synthesis and order.

In time, we identified the views of several major authors—Adam Smith, Karl Marx, Milton Friedman, and John K. Galbraith—around which the literature (data point) clustered; but it was still necessary to search for a means by which each view could be criticized and evaluated against the others. We eventually chose to "translate" each of the key conceptions into the common language of systems theory (22, Ch. 2). Our central assumption was that the firm and society were social systems, related to one another in some not yet fully understood way. In this framework, the similarities and differences between the market model and the exploitation model became sharp and clear—each saw an "exchange process" between the firm and society, but differed on the relative benefits accruing to the various subsystems through the process of exchange (consumer surplus versus surplus value). Galbraith's concept of a technostructure dominating social values could be viewed as a suprasystem dominating many individual social systems (firms and other organizations). And the legal model could be seen as a process by which the suprasystem (society) established the rules of the game for each of the social units within it. Some evidence suggested that each of these views did indeed have a grain of truth in it. Our problem lay not in choosing among them (for no one choice could explain the "deviant" situations explained by the other models), but in finding an integrating conception.

The systems literature provided what was to become both an alternative way of viewing the corporation-society relationship (model), and a set of concepts that could embrace all of the inductive evidence that seemed to support one or another of the extant models. The new concept was that of *interpenetrating social systems*. According to Talcott Parsons (16), social systems are interpenetrating when they not only influence one

another but also *mutually* influence the processes by which they continue to interact over time. As applied to the study of the corporation and society, this concept permitted an emphasis on the process of corporation–society interaction without predetermining what form that interaction must take. It facilitated an analysis of behavior that reflected both social conflict and harmony; and, unlike other models, the presence of either harmony or conflict between the corporation and society was not the primary theoretical concern. Rather, this model focused attention on the *processes* of interaction (market and public policy), the kinds of behavior exhibited by corporations and other social actors, and the patterns of response whereby harmony or conflict evolved. A framework for understanding the processes of interaction was the gap in knowledge that the interpenetrating systems model sought to fill.

II. THE INTERPENETRATING SYSTEMS PERSPECTIVE

As a conceptual approach to the analysis of the corporation and society, the interpenetrating social systems perspective operates at two distinct levels. Originally conceived as an integrator of the prevailing legal, economic, and technostucture models, it is a macro level model of the *nature* of the corporation–society relationship. In this context, it provides a distinctive way of thinking about the corporation and society in general—i.e., as social systems which influence one another and the processes by which they continue to interact over time—which contrasts with the conventional economic and legal/political approaches.

The second level at which the interpenetrating systems perspective operates is the micro level of the specific firm and the “society of relevant publics” (17, pp. 7 & 8) interested in its economic and social performance. At this level of analysis, the research questions are focused on those variables influencing the performance and behavior of the firm, the identification of its relevant publics, and the factors influencing the responsiveness of the firm and relevant publics to one another.

At the macro level, the interpenetrating systems concept functions as a deductive model, providing logical propositions for research and inquiry. At the micro level, it provides a framework within which empirical evidence can be organized and structured. Potentially, at least, the analysis of specific cases of corporation–society relations in this framework will facilitate a collection of applied knowledge about the processes of interaction between the firm and its external environment.

As a Model of the Corporation-Society Relationship

The conventional legal, economic, and technostucture models concentrate on individuals or social classes as the relevant social units of

analysis. The interpenetrating systems model, however, specifically assumes that the appropriate social units for analysis are the institutions of society—i.e., corporations as whole entities and relevant publics in society that have an institutional context (government agencies, public interest groups, etc.).¹ This is not to say that individuals or classes are inappropriate foci; rather, they are inappropriate if one wishes to analyze the corporation and society as social systems.

At the macro level of analysis, two principal questions are, "What is the *nature* of the corporation-society relationship?" and "What determines the *scope* of corporate responsibility?" These are the questions to which *Private Management and Public Policy* (22) was specifically addressed. These questions appeared to be the central questions underlying much popular debate about the economic and social performance of the modern corporation in society. While certain kinds of economic and social performance raise public issues and create specific social conflicts, performance in general is not a macro-level research question. Rather, at the macro level, attention focuses on identification of significant performance areas and the source and character of public expectations about the performance that corporations should render, and, thus, on the underlying issue of the *nature* of the corporation-society relationship. Similarly, the public debate surrounding the "social responsibility" of business seemed to indicate that there was an underlying question about the *scope* of responsibility that corporations had in society. The public arguments that corporations did have responsibilities, and that those responsibilities transcended the marketplace but were not unlimited in nature, seemed to reinforce the proposition that the scope of corporate responsibility differed with the circumstances of a particular firm's relationship with society. Our formulation of a theory of primary and secondary involvement, in turn, was an attempt to deal with the underlying determinants of *scope* at the macro level (22, Ch. 1).

The social systems terminology proved well-suited to the type a level of analysis just described. It facilitated a critique of the conventional legal, economic, and technostucture models in terms of the significant differences in the conception of the nature of the corporation-society relationship and a comparison of views about the scope of micro unit responsibility (22, Ch. 2). Out of this critique, it eventually became clear that each of the corporation-society models (including the interpenetrating systems model) articulated a thesis about the nature of the corporation in society. While each of the conventional models has descriptive weaknesses, insofar as they are unable to describe all of the observed reality of corporation-society interactions, each model does address the question of how the corporation, as a social unit, "fits" with the larger society as a social unit.

Status/Behavior/Performance

Every organization develops a set of structural relations with elements in the external environment over time. Through the organization's life history, these relations may evolve into such "roles" as industry leader, community leader, and so forth. As Epstein (11) has argued, as the organization grows in size, these relations multiply and various kinds of power begin to accrue. In my study of the American insurance industry (17), this structure of relations with elements in the environment was seen as defining the organization's social *status*—i.e., its place in the scheme of things.

A corporation's status, or the power which derives from it, can, itself, produce social conflict. More often, status operates as a set of conditions leading to outcomes that might be considered unsatisfactory *performance* by the corporation. This concern with corporate impact and corporate performance is the wellspring from which arguments both defending and criticizing the corporation have drawn abundant evidence. Most importantly, the connection between the actual performance of corporations and the status of those entities (using such indicators as size, assets, or market share) has been widely argued, but not convincingly proven. One reason this connection is not yet clear is that a crucial research link is missing between the concepts of status and performance.

The "missing link" that is necessary to bridge the gap between the macro-level concepts of status and performance is a comparable macro-level conception of corporate *behavior* in response to social change. In the field of industrial organization, it has become part of the conventional wisdom to note that the structure of a market (competitive, monopolistic) influences the conduct of actors in that market. Conduct, in turn, determines the actual performance that society receives in the form of prices, product quality, and consumer surplus. The writings of Bain (3) and Caves (6) represent classic efforts in the definition of this relationship. We now suggest an analogous relationship in the corporation–society field: *The status of an organization will influence its behavior; its behavior will determine the kind, and quality, of its economic and social performances.*

The macro-level conception of behavior has not been explicitly addressed as a research problem in the past. Indeed, a review of the literature dealing with organization/environment interaction (17, Ch. 1), led to the identification of two basic models of behavior; the empirical research study which built on that base identified a third, conceptually new, behavior model. The two familiar behavior models are the adaptive and proactive models. The *adaptive model* assumes that there are various states of organization–environment relations in which the entity can operate. Some are more preferred than others by management. When external disturbance occurs in the environment, it prompts management to

respond in a way that moves the organization toward a more preferred available state. This is accomplished by management's assessment and evaluation of the change, its consideration of internal decision variables, and the application of known and previously used decision rules (e.g., "never bargain with protestors on the first day"). The external shocks and their influence on the internal decision variables of the organization serve to change the actual state of the firm's relations with the environment. As Cyert and March (9) have written, whether the new state is more preferred or less preferred determines the likelihood that the decision rule will be used again in the future.

Whereas the adaptive model assumes that environmental change occurs first, and is then followed by an organizational reaction, the *proactive* (or manipulative) *model* assumes that an organization's management continuously analyzes its internal interests (decision variables) and applies previously successful decision rules in an effort to change the environment and achieve a state of external conditions that are most favorable for the organization's operations. This manipulative or proactive approach means that, in principle, management can authorize any action that will increase or improve the opportunities for achievement of organizational goals. As with the adaptive model, decision rules and actions that successfully lead to a preferred state are likely to be used again in the future; those that fail will not. Management undergoes a learning process whether its behavior is adaptive or proactive or both (17, Ch. 1).

The conceptual fit between these models of organizational action and the basic models of corporation-society relationship is illustrated in Figure 1. The central difference between the adaptive and proactive models is the assumption about where change initially occurs—i.e., in the adaptive model, the environment is the source of change; in the proactive model, the organization is the initiator. The validity of either of these stimulus-response conceptions of organization/environment relations is itself a subject for empirical inquiry.

In the analysis of the insurance industry and social change, this stimulus-response conception of corporation-society relations was tested and found insufficient to explain all of the cases analyzed. Out of this research, which is discussed in greater detail below, a third and new conceptual model of organizational behavior was articulated. The *interactive model* proceeds from the assumption that the organization and the environment are both changing simultaneously, though not at the same rate. Hence, rather than focusing on a single temporal change and a specific response, the appropriate research focus for assessing organizational behavior in response to a performance issue is a longitudinal one.² In this context, an organizational action may be viewed as neither the defensive reaction prescribed by the adaptive model, nor the offensive

Figure 1. Corporation and Society: Status and Behavior Models*

Models of the Corporation-Society Relationship	Models of Organizational Behavior	Characterized by
LEGAL MODEL	Adaptive	adherence to rules of the game
	Proactive	cooptation of regulatory agencies
MARKET MODEL	Adaptive	competition
	Proactive	attempts at monopolization
EXPLOITATION MODEL	Adaptive	search for new exploitation opportunities
	Proactive	extraction of surplus value
TECHNOSTRUCTURE MODEL	Adaptive	countervailing power
	Proactive	technocratic dominance of social goals and values
INTERPENETRATING SYSTEMS MODEL	Adaptive	reactions to perceived threats
	Proactive	attempted manipulation of other actors
	Interactive	continuous action and reaction to evolving social trends and issues.

* Adapted from Post (17, p. 14)

manipulation prescribed by the proactive model. It may be seen as a response calculated to stimulate or continue interaction between the entity and the environment. If so, it can be assessed by examining a longitudinal relationship, the process of interaction, and the resulting *pattern* of behavior.

As a Model of the Firm and Its Environment

At the micro level of analysis, the appropriate social unit for analysis is a specific firm and those segments of society that constitute its "relevant publics" (17, Ch. 1). The interpenetrating systems model provides a general framework within which the analysis of a specific corporation-society relationship can be undertaken. In addition, and perhaps more importantly, the interpenetrating systems perspective provides some sense of where the important issues lie in the relationship of a specific firm to its social environment.

Every individual firm renders a great number of social and economic *performances*. That is, its activities usually have a large number of different impacts on society. The number of employees, their average wage level, the contribution to local or regional output, the magnitude of goods and services purchased from local vendors, and the amount of contributions to local charities are but a few of the many performance impacts a

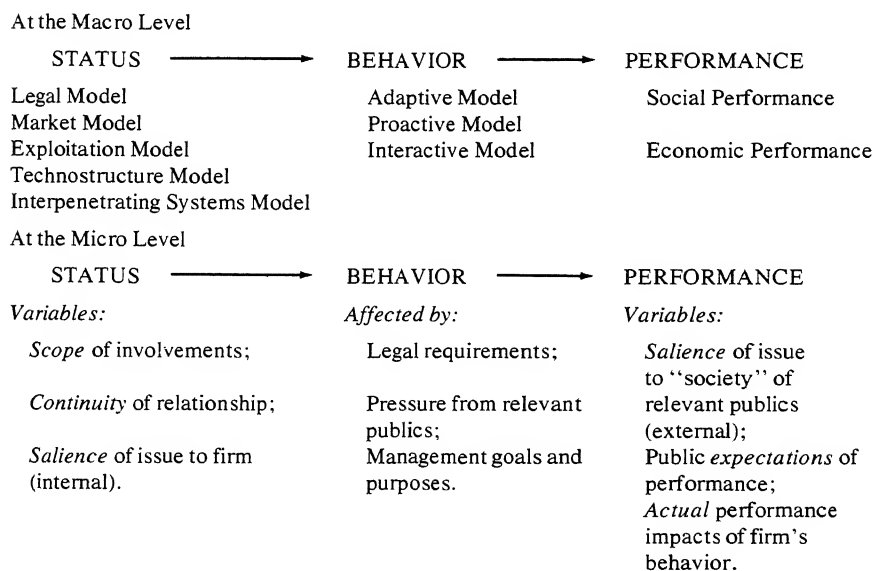
firm has on its social environment. At the micro unit level, these performance impacts can be identified and evaluated. (Indeed, much of the "social audit" literature is concerned with the development of performance indicators.) On the society side of the corporation-society equation, it can be said that various relevant publics have expectations about the kind and quality of the firm's economic and social performances. Indeed, this concept has been extended to the point of saying that a firm faces a social issue whenever there is a gap between some actual performance which it is rendering and that performance which *any* relevant public expects from the organization (19). In the modern social environment, any relevant public which is dissatisfied with the performance of an organization can apply pressure to the firm to meet expectations or can attempt to use the legal system to require improved performance.³ Hence, at the level of an individual firm, the focus is not on the abstract concept of social and economic performance, but on the expectations which particular elements of the public have of *that* firm's performance compared to the actual performances being rendered.

The firm's *social status* or position in society is another interpenetrating systems concept which can be applied to corporation-society research at the micro level. A firm's status reflects its relations with the rest of the world and is a function of such variables as its position in an industry, the importance of the industry to society (e.g., energy vs. candy), the size of its employment, and its importance to the local or regional economies in which it operates. Recognition and articulation of such variables make possible comparisons within categories, within geographical areas, and within asset or sales categories. More importantly, status emphasizes that the relationship between a firm and its environment is multidimensional in nature, as well as in manifestation (performance). This, in turn, raises the possibility of finding associations between combinations of status variables and performance outcomes.⁴ In my study of management and social change in the American insurance industry, for example, it was found that one company's (Aetna Life & Casualty) rather unique performance in the urban affairs area (e.g., first insurer to create a department of social responsibility) and its trendsetting activities in the equal employment opportunity area were related to its prominence in the local headquarters community and a longstanding involvement in urban redevelopment.

A firm's social status is altered as it responds to changing performance expectations. That is, when changing public expectations are viewed as the immediate manifestations of underlying social change, then an organization's underlying responsiveness to change is manifested by its *behavior* in coping with new performance issues. Inductive observation in-

indicates that a firm's behavior is attributable to various types of stimuli, including legal requirements, public pressures, and management initiative (12). In analyzing a particular organization's response to performance issues, then, the researcher can search for those factors that manifest changing legal rules, new or increased pressures from relevant publics, and the values that lead management to direct the firm as they do. In the study of the insurance industry, for example, it was found that different combinations of legal change, public pressure, and management objectives existed in the "life cycle" of each of the public issues examined. Other research studies have pointed to the relation between certain kinds of behavioral stimuli and the resultant corporate behavior (18, 20). Indeed, it is this concept of stimuli producing predictable patterns of corporate behavior that underlies the organizational decision rules of the adaptive and proactive behavior models discussed above. It was also the application of this set of concepts to the analysis of the Aetna's behavior in response to a variety of performance issues that eventually gave rise to the conclusion that the adaptive and proactive models did not describe all types of organizational response to change, and that there also existed an "interactive pattern" of response (17, Ch. 9). Examples of these patterns are further discussed below.

Figure 2. The Corporation and Society: An Interpenetrating Systems Perspective



III. PATTERNS OF RESPONSE: FINDINGS FROM THE INSURANCE INDUSTRY

The study of management and social change in the American insurance industry was conceived as a means of testing the hypothesis that a corporation's behavior in response to various public issues, at different stages in their own life history, would vary with the extent of the interpenetration between the firm and society. To conceptualize this interpenetration, the *scope* of the firm's involvements with its relevant publics as well as the *continuity* of those relationships was examined. Hence, scope and continuity were identified as the key indicators of the corporation's status. The performance issues selected for examination were "mostly economic performance" issues in three instances and "mostly social performance" issues in two other instances. The life history of each issue was examined, and Aetna Life & Casualty's response to each issue was studied over that life history. The gap between the company's actual performance and the public's expectations was expressed in terms of the *salience* of the issue to both the firm (internal salience) and the relevant publics (external salience). Over time, of course, the salience of the issue to both the firm and society changed.

Because the research was very much exploratory in nature, precise relationships between the scope of involvements, continuity of relationships, salience of issues, and actual corporate behavior in response to the issues could not be hypothesized. Rather, the research question was posed in this manner: what factors account for the responses of a single organization to different public issues during a given period of time when each issue is at a different stage of its life history? The research was undertaken by interviewing managers, regulatory officials, executives of competitors, and members of external groups and associations, as well as extensive examination of records and published and unpublished documents bearing on the controversies and the company's responses. Beginning with about fifteen issues that were important in the insurance industry between 1960 and 1972, five were selected for the most detailed analysis. The three "mostly economic performance" issues included inflation and the life insurance business, the inner city fire insurance market, and no-fault automobile insurance proposals. The two "mostly social performance" issues included equal employment opportunity and community affairs. As the research proceeded, it became obvious that in order to comprehend the actions of the focal organization, it was necessary to understand the company's historical development, its role in the life and nonlife components of the industry, and the competitive, organizational, and public policy trends that had shaped the environment for insurers in the 1960s and 1970s.

When assessed in this context, a set of relationships and explanations for behavior became not only more logical but more reasonable in the sense of the industry's whole history. It was found that the responses of the Aetna Life & Casualty Company to the five selected issues (and eventually the remainder of the original sample of fifteen) fell into three distinct patterns. Two were quite conventional and could be traced throughout the company's history: one involved *reaction* to change in the environment (adaptive behavior model); the second involved efforts by the company to *promote* change in the environment (proactive behavior model). It was found that both approaches began to fail the firm during the late 1960s. Two notable failures (inflation in the life insurance business and the inner city fire insurance market) are discussed below. Out of these failures came an eventual recognition of the need for a new approach to the changing environment (interactive behavior model). The Aetna's response to the issue of no-fault auto insurance represented such a response, one which recognized the simultaneously changing corporate goals and social goals. This approach emphasized the need for actions to keep corporate and public goals continuously harmonized. These three cases are summarized below as individual examples of the basic adaptive, proactive, and interactive patterns of response.

Example 1. The Reactive Pattern

A major public issue in the United States during the 1960s was the growing impact of inflation on personal savings and investment. The life insurance industry had been directly affected by inflation earlier than many other industries. Although usually sold as a form of protection, life insurance actually competes against other forms of investment for investor dollars. When corporate earnings increase, as they did during the 1960s, and inflation eats away at the real value of insurance policies, dollars tend to flow away from life insurance toward more attractive investment alternatives. The actual investment performance of life insurance deviated greatly from that which an investing public had come to expect from "good" investments during the 1960s.

The gap between investor expectations and the actual performance achievable through investing in life insurance was serious, and the industry was moved to respond. Since there was no effective way of convincing investors that their expectations should be lowered, thus making life insurance appear attractive again, the industry's leaders began to search for other responses. An early effort was a public relations campaign to convince the public of the need for an anti-inflationary campaign to curb government spending. Although the campaign featured a film called "Trouble in Paradise," detailing the woes that befell nations that favored deficit spending and inflationary wage increases, neither the federal gov-

ernment nor the American public was inclined to alter its spending habits.

Public relations having failed, a number of insurers began to embark on a course of product development designed to join the safety of the traditional life insurance policy with the higher returns of common stock investment. This effort to improve actual performance and meet investor expectations led Aetna Life & Casualty to innovate in the "variable products" area by developing and selling variable annuities. This approach eventually led Aetna to acquire a subsidiary that specialized in variable products and to portray their sales staff as financial consultants. By the early 1970s the company had developed a variable life insurance policy (VLI) that combined the safety of life insurance and the variable investment return of a stock portfolio.

Overlapping regulation was the most formidable obstacle to the marketing of this product innovation. The states had regulatory jurisdiction over any new life insurance policies and had to approve the underlying concepts as well as the policy forms. Since the variable life insurance policies had a variable return component that was tied to the performance of a common stock fund, the Securities and Exchange Commission also sought to exert regulatory jurisdiction, ruling that salesmen had to be registered securities dealers and that VLI contracts could only be sold under restricted conditions. In 1972, Aetna Life and Casualty sold the first variable life insurance policy in the United States.

The opposition of the securities industry was understandable, and it sought to convince the SEC of the need to severely limit VLI sales. A ruling in January 1973 exempting VLI policies from SEC regulation was reconsidered by the SEC and VLI sales were halted. Only sales in conjunction with qualified pension and profit-sharing plans were permitted. Yet, because of their insurance characteristics, even these limited sales of VLI had to be approved by the state insurance commissions. In 1974, only 23 states had given such approval and these did not include the crucial insurance markets of New York, New Jersey, Pennsylvania, Illinois, or California. Variable life was effectively excluded from the market.

Finally, in October 1976, the SEC adopted regulations that permitted life insurance companies to sell individual VLI policies. Of the eighteen insurers that once indicated a desire to sell the product, however, only Equitable Life Assurance Society of the U.S. indicated an intention to market the product. With investor confidence in the stock market having declined precipitously during the mid-1970s, the late approval of VLI was not perceived as an action that would substantially enhance insurers' competitive positions. As one executive commented, "It's a fine step—and only five years late!"

The SEC's late approval was but the final act in a play that took sixteen

years to reach its denouement, but whose ending could have been foretold well beforehand. The effort to create variable life insurance was, at its core, a reaction to change in the environment. The scope of Aetna's involvement in the life insurance business made investor choices an extremely salient matter; for investors, the issue was less salient because other investment options were available. The company's status as a major seller of life insurance made a product response reasonable; the fact that development did not begin until *after* investor shifts had begun, (i.e., reaction to change) doomed the response to failure. The complexity of the regulatory environment undermined the prospects of a timely adaptation by the company. The adaptive behavior pattern was conventional but destined to fail in an environment where buyers had choices outside the industry.

Example 2: The Proactive Pattern

Unlike life insurance, which has had to compete for its buyers, fire insurance (and its casualty insurance offspring) has long been considered a necessity. This character as an essential service has produced a number of fundamental problems for the industry. Since businessmen cannot secure loans without insured inventories, the availability of fire and casualty insurance protection is a basic commercial need. Because there is also a consumer need for "reasonable" prices, insurers are not permitted by state insurance departments to price their product as they would like. The result of this availability/pricing squeeze was that by the mid-1960s, fire and casualty (e.g., crime) insurance was nearly unavailable in the inner-city areas of many American metropolitan areas. Withdrawal from the inner-city insurance markets was an increasingly popular response to the high loss-ratios that insurers had encountered in the cities. The urban riots of 1967 injected one further element into a largely bleak insurance picture—the catastrophic loss. Following the riots, over \$75 million of claims were filed with insurers. The shock of that experience provided insurers with a serious problem, but also a unique opportunity to change the insurance environment of the inner city.

The scope of involvement in the inner city for a major stock fire insurer like Aetna was very extensive. Stock insurance companies supplied nearly eighty percent of coverage in force. Hence, large losses, followed by riots, made the question of performance highly salient for the industry as well as for inner-city residents.

When President Lyndon B. Johnson appointed a special commission to look into the causes of the urban riots, a special advisory panel was created to analyze the insurance aspects of the riots. Taking testimony from many sources, this panel analyzed the insurance environment of urban areas. A parade of witnesses representing the major stock insurers

presented a concerted position. They advocated a government reinsurance program to safeguard the private carriers from excessive and catastrophic losses. In return, there was the promise of cooperation in developing property-by-property inspection plans (rather than redlining whole areas) and a pooling plan to insure the less-preferred (but not all) risks. In short, the stock companies would commit themselves to remain in the inner-city fire insurance market if they could retain discretion in normal underwriting cases and get federal reinsurance protection for catastrophes such as riots.

Opposition to the industry plan was intense. The insurance commissioner of California testified that the industry was practicing political brinksmanship, refusing to insure inner-city properties unless they received the backup commitment. Timing favored the insurers: 1968 would be an election year, and if the summer of '68 was the powderkeg that 1967 had been, the states could be forced into incredibly expensive pooling plans. The insurance commissioner from Michigan noted that a federally subsidized reinsurance plan, in the absence of increased exposure in the urban areas, could actually produce a better financial and underwriting result. Reinsurance would not induce insurers to go into the inner-city market—at best, it might persuade those companies already selling in that market to stay.

Convincing federal and state governmental authorities of the need for a government-supported backup arrangement was an intensely political act, and the stock insurance companies pursued a common political strategy: argue the need for such a system and threaten to abandon the inner city en masse if it were not enacted. The strategy succeeded. In January 1968, the President's National Advisory Panel on Insurance In Riot-Affected Areas submitted its report calling for a voluntary system that would include individual inspection of properties, notification of steps required to make properties insurable, and creation of a pool to guarantee insurance for reasonably maintained properties. These were the so-called "Fair Access to Insurance Requirements" (FAIR) plans. State reinsurance pools would be created as industry backups and a federal reinsurance mechanism would also be established for catastrophic losses. Within the year, Congress enacted legislation to implement the Panel's recommendations.

By mid-1969, twenty-seven states, representing 75 percent of the property insurance premiums collected in the United States, enacted legislation creating the state insurance pools. Yet, riot-occasioned losses had declined to \$15 million, a development which reduced the value of the federal reinsurance commitment to the insurers. Not surprisingly, since that time the FAIR Plans have continued to face the twin problems of insurer dumping (placing most inner-city risks in the state pools) and the threatened withdrawal of the companies from the underwriting pools.

The proactive approach of the stock companies can be understood as a result of a concern with an unsatisfactory performance in the inner city (i.e., high loss ratios). The high salience of the problem led to a search for a means to close the gap between actual performance and management expectations. The riots presented an occasion for the companies to attempt a manipulation of the regulatory environment toward creation of a reinsurance plan. The dependency of inner-city publics on the stock insurers made the availability of fire insurance a highly salient matter to this group as well. A federal Congress, confronted with an industry with significant involvements and serious economic problems as well as a public that faced immense social and economic problems if the insurers withdrew, endorsed the reinsurance plan. The behavior of the insurers was directly influenced by their status as sellers and the performance problems they suffered. The behavior of Congress was influenced by the salience of the issue to the public and the industry, and the implications that flowed from the companies' threatened withdrawal.

Example 3: The Interactive Pattern

The central role of the automobile in American society obscures the fact that its history dates back less than 100 years. The scope of insurer involvement with the driving public has changed greatly. In the course of the last fifty years, automobile insurance has been transformed from a tentative new kind of insurance coverage to a regulated product and, most recently, to a major social problem. The problem, of course, is the externalities of injury and death associated with automobile use and misuse. The protection of innocent victims has long been a public policy matter, beginning with financial responsibility laws in the 1920s and extending to compulsory liability systems. As the need for automobiles increased, and the need for liability insurance increased as well, the notion of refusing insurance to a poor driver became unacceptable. Moreover, great pressure was exerted on insurers to keep the cost of insurance at "reasonable" levels. Hence, in auto insurance, a classic availability/pricing dilemma developed.

As the problems worsened during the 1960s, new proposals emerged. The most notable was the comprehensive no-fault reform scheme offered by Professors Keeton and O'Connell in 1965. Despite the industry's underwriting and loss ratio problem (high internal salience), the basic industry response to the no-fault proposal was opposition. A listing ship, it seemed, was more attractive than an unknown ship. Hence, for most insurers, the conventional reactive response to change was opposition. An exception to this pattern was Aetna Life & Casualty, one of the nation's largest auto insurers, where the head of the underwriting department authorized a study of the impact of the Keeton-O'Connell plan on a

sample of recent automobile claims. The results of that study led the underwriting staff to endorse the concept. Considerable skepticism from sales executives and others within the company had to be overcome, but by late 1967 a management policy position in support of the concept had crystallized. This position became public during the Department of Transportation study in 1968, and the Aetna's position was a matter of public record well before the DOT findings were issued in 1970.

The ground on which the Aetna had positioned itself exposed it to criticism of various types. Nevertheless, the company became an open advocate of no-fault reform and the first automobile insurer to publicly urge the states to adopt such plans. Its lobbying efforts were directed toward this end, and in 1974, when several "counterfeit" no-fault plans had been adopted in various states, Aetna Life & Casualty became the first auto insurer to advocate the establishment of federal standards for no-fault plans.

What did the company gain from such a posture? Regulatory authorities would certainly require rate reductions if the savings were as great as anticipated. Hence, no windfall profits were likely to accrue. Also, the fears that such a system might alter normal marketing arrangements in favor of mass marketing was dismissed when the company strengthened its commitment to the prevailing agency sales system. Hence, there was probably neither financial nor competitive advantage for the company.

A study of the circumstances surrounding the case of no-fault insurance suggests that Aetna's management endorsed the no-fault concept because it was responsive to an issue that was highly salient to both the driving public and major insurers like the Aetna. The extensiveness of the company's auto insurance business and its interest in remaining in that business gave it both a distinct status as a supplier of insurance coverage and a role as a key actor in any potential reform of the automobile reparations system. In supporting no-fault insurance, the company publicly endorsed a set of reforms that would serve the driving public's need for available coverage and reasonable prices and the insurers' needs for adequate rates. On its own, this case seems to signal an approach that recognized the continuous interaction and changing goals of the public and the firm. In this, it departed from both the adaptive and proactive approaches to coping with change.

There was more than a trace of organizational learning associated with Aetna's endorsement of no-fault insurance. By the late 1960s the company's responses to other public issues showed a distinct shift away from the conventional adaptive and proactive patterns of response toward a more interactive pattern. The key change seems to have been a top management recognition of the need to continuously narrow the gap between changing public goals and the company's performance. To do this, it has

responded to the new demands of social involvement with a functional structure for dealing with community and corporate responsibility matters headed by a Vice President for Corporate Social Responsibility. On "mostly social performance" issues like urban investment and equal employment opportunities it has consistently attempted to sense changing public goals and act in advance of new legislative requirements. On "mostly economic performance" issues, such as the automobile, malpractice, and product liability insurance dilemmas, it has attempted to interact with regulatory agencies and relevant consumer publics to define mutually accommodating solutions. While not always successful, there has been a clear preference for interactive, rather than reactive or manipulative behavior since the early 1970s.

IV. CONCLUSIONS

Theory Building

The study of the corporation and society relationship has attracted scholars who are interested in both the applied aspects of the relationship (e.g., conflict management) and the more theoretical.⁵ Any theory that would deal with this field, however, must ultimately confront the reality of extensive and continuing corporation-society interaction. According to Robert Dubin, an applied theory necessarily has to have the real world as its point of origin. "It is exceedingly difficult to say something about the real world without starting in the real world. Observation and description of the real world are the essential points of origin for theories in applied areas . . ." (10, p. 18). Documentation of the interaction between corporations and society is extensive, and the many volumes of observations, anecdotes, and case studies are regularly supplemented by the continuing tale of interaction told in the pages of the *Wall Street Journal*, the *New York Times* and local newspapers throughout the world.

The extensiveness and the richness of this inductive base does not guarantee theoretical formulations, however. What is required for the "central theoretical conception" of which Preston (21) wrote is a creative leap from the data base to a conclusion from which other deductive propositions might emerge. Dubin's essay, "Theory Building in Applied Areas," makes the point in the following manner:

Theories . . . represent levels of generalization beyond a statistical summary of data points. Any generalization which starts from the data points generated by observation and description is arrived at through an inductive process. . . . What further conclusions the researcher wishes to draw from the correlation depends upon his skill and cleverness in reaching an inductive generalization at a level higher than the correla-

tional conclusion. . . . [In this way] we have reached an inductive conclusion that is already removed from the data base from which it originates. . . . [Having] started from sound observation and description, we could well be on the road to developing new theory. (10. p. 18)

The search for a creative generalization, in Dubin's context, has rarely been successful in the study of the corporation and society. It is ironic that, while there seems to be relatively little argument in academic circles about the importance of the field, only parsimonious encouragement is given to theoretical scholarship in the area. Yet the need for such an investment of scholarly effort is apparent. Our vast data base does not, by itself, make clear where the information is lacking. If anything, we probably have too much raw material and unstructured data and insufficient ways of organizing it.

One purpose of the patterns of response research has been to establish a set of behavioral categories, conceptually and theoretically distinct, into which the body of observations of corporate behavior may be placed. The interpenetrating systems theory raised behavior to the foreground as an important matter for research. In *Risk and Response*, two familiar behavior models were articulated and a third model derived from the study of how the management of one firm simultaneously responded to multiple environmental issues. Articulation of the interactive behavior model represented the kind of creative leap from the data base to which Dubin referred. Further testing of these models is the next research step.

Broadening the Data Base

The existence of three distinct patterns of response to change at Aetna Life & Casualty was confirmed by the actions of other firms in the insurance industry. Nevertheless, it was not clear whether the patterns were unique to the insurance industry, or applicable to other industries and corporation-society relationships. There is a clear need to test the patterns of response concepts against a larger body of empirical data. If the patterns are to be a set of useful analytical concepts, their existence has to be demonstrated in a broad variety of environmental change cases.

Because environmental change touches the core of management activity and policy decision making, there is reason to believe that patterns of response similar to those identified in *Risk and Response* will be found in other industries, and with regard to other types of environmental change. Having found some similarities in the manner in which an organization coped with change, irrespective of its economic or social character, the question of whether these patterns will apply under various kinds of environmental change remains. To push this line of research forward, a subsequent study has been constructed to test the patterns of response

hypotheses. A series of "high salience" issues in a variety of industries has been drawn from conflicts reported in the popular press. This pool of cases has been supplemented with a number of historical cases of organization/environment conflict. The sample has been segmented by the type of underlying environmental change, utilizing four categories of change: economic, technological, sociocultural, and political.

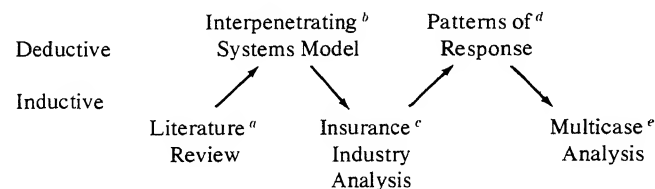
The three basic patterns of response (reactive, proactive, interactive) are now being applied to the analysis of these cases. A working sample of cases has been selected for detailed study. Although the results are still preliminary, there is strong reason to believe that the behavior patterns discussed above hold over this sample.

Henry Mintzberg (13) has made the simple, yet insightful, observation that all fields of research have an interplay between deductive models and inductive observations. Especially as it applies to the study of the corporation and society, there is a back-and-forth movement between the development of models based on past experience and evidence and the testing of those models against new empirical cases and evidence. The truth of Mintzberg's observation is probably best seen by reference to the manner in which my own research into patterns of corporate response to change has evolved.

The research described in the aforementioned evolution is not applied research in the study of the corporation and society. Unlike those studies that have chosen to focus on managerial tools for coping with environmental change, this line of study has concentrated on the manner in which organizations *do* respond to change. And since it concentrates on how firms *do* respond, rather than how they *should* respond to change, it is not normative in its nature.

The analysis of the corporation-society relationship as interpenetrating systems raised the issue of behavior to the foreground. In the context of analyzing the question of how one firm simultaneously responds to multi-

Figure 3. Evolution of Patterns of Response Research



^a Preston (21)

^b Preston and Post, (22)

^c Post, (17)

^d Post, (17)

^e Post, (19)

ple issues at various stages in their life history, several behavioral patterns were identified. The question that remains to be answered is whether these patterns apply in all cases, or whether additional patterns emerge when the interpenetration variables differ. The definition of those variables and the manner in which they correlate with behavior patterns is a matter that seems certain to demand additional research in the years ahead. The research into the relationship between status, behavior, and performance reflects the continuing search for a paradigm in the study of the corporation and society.

FOOTNOTES

1. This emphasis on institutions as the focal units for analysis recognizes that institutions are the *central* actors in modern political economies. To be sure, there are important management/society issues regarding *managerial* conduct and social conduct in the personal ethical context. In discussing the corporation-society relationships, however, it is clear that the institutions of society have an existence quite distinct from those individuals who manage or inhabit them for a limited period of time.
2. This perspective serves to focus attention on the "life history" of the issue and the evolving patterns of response exhibited by individual firms. The concept of a public issue's life history is discussed by Wilson (27) and an application is made in Post (18).
3. The mechanisms whereby a relevant public can actualize its interest and accomplish its objectives differ, but the framework in which this occurs is the public policy process (22, Chs. 5,6).
4. It is also important to recognize that this concept offers a framework into which all of the industrial organization literature on structure → conduct → performance relationships can be incorporated.
5. Curriculum trends in the business and society field indicate some movement away from the more critical "social role/impact of business" approach typified by Sethi (23) toward a more "managerially oriented" approach as typified by Ackerman and Bauer (2) and Carroll (5). This may signal a shift in teaching away from more conceptual treatments of the subject in favor of more applied approaches.

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ORGANIZATIONAL GOALS AND CONTROL SYSTEMS: INTERNAL AND EXTERNAL CONSIDERATIONS*

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The large organization, so prominent on our contemporary social landscape, is of great antiquity. If we had no other evidence, we would know that complex organizations were necessary to the accomplishment of great construction tasks—planned cities like Nara or Kyoto or Ch'ang-An, monuments like the Pyramids and temples of Egypt, irrigation systems such as those in ancient Mesopotamia or northern China. But we also know of organization for less material ends, for the preservation of law and order, the maintenance of peace or the prosecution of war—Persia, the efficiency of whose control mechanism and communication system has been so well described by Herodotus and Xenophon, and the Inca empire of Peru, where a complex and far-flung state was adminis-

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tered in a highly systematic manner with a technology so poor as to include neither writing nor the wheel. Truly, among man's innovations, the use of organization to accomplish his ends is among both his greatest and his earliest.

But it is perhaps only in our era, and even then haltingly, that the rational design of organization has become an object of inquiry. It is characteristic of the present day that innovation, the solving of problems, is being increasingly systematized. Whereas in the past the improvement in the choice of routes was made by insight and spontaneous inspiration, today we try to arrive at the decision by solving a transportation problem. In the same way, there is an increasing interest in studying how organizations solve their problems so that one can systematically investigate optimal organization.

Let me state the problem at hand a little more precisely; since research in this area is still in its early stages, undue exactness must be avoided. An organization is a group of individuals seeking to achieve some common goals, or, in different language, to maximize an objective function. Each member has objectives of his own, in general not coincident with those of the organization. Each member also has some range of decisions to make within limits set partly by the environment external to the organization and partly by the decisions of the other members. Finally, some but not all observations about the working of the organization and about the external world are communicated from one member to another.

CONTROL SYSTEMS IN LARGE ORGANIZATIONS

I wish to set forth some considerations on one aspect of the workings of an organization—how it can best keep its members in step with each other to maximize the organization's objective function. This may be referred to as the problem of organizational control. It divides itself naturally into two parts: The choice of operating rules instructing the members of the organization how to act, and the choice of enforcement rules to persuade or compel them to act in accordance with the operating rules. Various other terms for these two problems have appeared in the literature; a widespread usage is to refer to the operating rules as control-in-the-large and the enforcement rules as control-in-the-small. It should be noted that enforcement, here as elsewhere, includes both the detection and the punishment of deviations from the operating rules.

I will first discuss in the very broadest outline some typical examples of control problems in modern organizations—the large corporation, government, the economic system as a whole considered as one great organi-

zation. From the illustrations, a brief statement of the essentials of the control problem will be derived. Next I will consider the price system as a solution to the problem of control. While the price system has many values, it also has limitations. Consideration of these will bring out more clearly the basic problems of organizational control, and in particular the crucial role of uncertainty among the causes for the creation of organization. Finally, the need for some additional forms of control will be briefly examined.

The Corporation

The issue of centralization or decentralization in the large corporation has received considerable attention in recent years. A large corporation contains many diverse productive activities, which have important connections with each other and yet are separately identifiable. The products of one activity are the inputs of another, and therefore it is costly to the corporation if its activities are not balanced. Further, the coordination is needed not only at a single point of time but over many time periods; each activity beginning when the first one ends.

What may be called the classic businessman's view is to be so impressed with the complexity of coordination that great stress is placed on the need for central control. Emphasis is placed on vertical, hierarchical relations; control is exercised by orders from above, executed in detail by those below. The coordination between managers of parallel activities is, in this view, achieved by their common obedience to the plans set at higher levels. Accounting systems and other forms of reporting provide higher echelons with all the information needed to detect violations of orders, and dismissal from employment is the punishment.

Of course, the view I have just sketched is a caricature and was probably not held by anyone in all its rigidity. It is immediately obvious that higher management cannot literally know everything about the operations of individual activities and therefore cannot make all decisions. Hence, some decisions, if only trivial ones, must be made at lower levels, since the relevant information is discarded in the process of upward transmission to avoid overloading the channels.

The recognition that individual managers will inevitably know more about their own spheres of activity than higher officials has caused decentralization of decision making to be looked on with much more favor in recent years. It has also been recognized that decentralization can improve the allocation of responsibility; on the one hand, the subordinate has greater possibilities for initiative; on the other, his successes and failures can be more easily recognized by top management. In the terminology introduced earlier, the operating rules under a centralized sys-

tem take the form, "do this or that," while under a decentralized system they rather take the form, "do whatever is necessary to maximize a certain objective function."

But the problems of articulating more specifically the operating and enforcement rules of a decentralized organization have not been faced systematically. The objective function for the corporation as a whole may be well-defined to be aggregate net worth, but its value depends on the decisions of many managers; the objective function to be maximized by an activity manager must depend in some well-defined way on his decisions, to provide an appropriate set of directions to him.

The Government

The design of control systems in large corporations is already a formidable task, but it is several orders of magnitude simpler than the control system for a government. The governmental decision-making process has all the complexities of the corporate, but there are two major additions: the consumer-like character of the government, and the varied nature of its activities. Economic theory, as well as ordinary experience, tells us that the process of consumer's choice is harder to make rational than the decision making of the corporation. In theory, the corporation maximizes a well-specified objective function, profits or net worth, with no constraints other than those imposed by its technology. The consumer, on the contrary, maximizes a subjective magnitude under a budgetary constraint. This implies that the consumer cannot seriously be expected to write down in any explicit way his maximand. Rather, the process of optimization consists of a series of comparisons among alternative ways of spending marginal dollars; the utility function is revealed to the consumer himself in the process. Further, the common budgetary constraint means that the marginal comparisons must be made among highly disparate alternatives—travel as opposed to clothing, for example.

The government's choices are analogous to those of the consumer, with the additional problem that the single utility function is replaced by the great variety of utility functions of the different groups in the political system, the final choice being the resultant of political pressures in many different directions. The government's budget to be allocated among activities is relatively fixed in any one year, though there is some opportunity for change in the total. Alternatively, and perhaps better, it could be said that society's total resources constitute the budgetary constraint, with the government deciding both the overall allocation between public and private activities and the allocation among public activities.

Society as a Whole

Up to this point, the boundaries of an organization have been taken as given. The line which separates governmental from nongovernmental actions, or which separates a corporation from its customers and suppliers, has been implicitly taken as well defined. But in fact we really have a nesting of organizations inside larger organizations; indeed, the whole economic system can be regarded as one large organization, and in many respects it is fruitful to do so. A socialist system is one in which the organizational unity of the economy is made explicit in its institutions, but it has long been a commonplace of traditional economics, certainly since the time of Pareto, that the apparent anarchy of capitalism conceals a complex organization fundamentally similar to socialism.

Consider the following three examples of commodity transfers: (1) An engine is placed on an assembly line to be installed into an automobile body. (2) An automobile factory receives a shipment of steel from a mill owned by the automobile-manufacturing company. (3) An automobile factory receives a shipment of steel from a mill owned by a steel company. The first is certainly a transaction within an organization and is carried out in accordance with operating rules laid down by authority. The third is a commercial transaction, the result of a contract in which goods are exchanged for money, and would usually be regarded as taking place between different organizations. Yet the second, the steel shipment from a mill to an automobile factory of the same ownership, is identical to the third in its economic content and to the first in the form of the transaction.

This continuous sequence of cases shows that drawing any boundary lines for an organization has a somewhat arbitrary element. If the entire economy is thought of as a single organization, one is led naturally to think of the price system as one of the major devices for coordinating different activities. The boundary of an organization then will be taken as the line across which only such transactions take place. As the examples just given show, we must be prepared in such a classification to recognize that some intra-organizational transactions will have the same economic content as price-mediated transactions.

It is important and illuminating to note, however, that many transactions have both price and non-price characteristics. Professional services, such as medical and legal services, are not carried on solely on the basis of an impersonal cash-for-service exchange. There is an expectation of personal responsibility, of fidelity and trust; physician and patient behave in many ways more like coworkers in the same organization than like a large manufacturer and his remote and unseen customers. Similar relations are

typical of labor services, agents, and, in general, of transactions involving goods or services where quality standards are significant and not easily verified in detail by the purchaser. Speaking broadly, these nonmarket relations reflect the same sort of problems that arise in control within an organization—the need for services coupled with incompleteness of knowledge by the receiving party about the activities of the supplier.

PROBLEMS OF CONTROL THROUGH A PRICE SYSTEM

It has already been observed that many of the transactions within an organization are similar to those that take place in the market. This has led both theorists and business firms to suggest that prices can be used to regulate transactions within the firm; these are usually referred to as “transfer prices.” In the purest form, a price is attached to each commodity or service produced or consumed by any activity in the organization; if the commodity is sold to, or bought from, other firms, the transfer price has to be the same as the market price (with some modifications in the case of imperfect competition.) The operating rule for the manager of each activity is then to maximize its profits, as computed by valuing its inputs and outputs at the transfer prices.

This is straightforward, but merely restates the control problem as that of choosing the correct prices. They have to be such that, if each manager does choose his inputs and outputs so as to maximize profits, then for each intermediate good (one not bought or sold on an open market) the total supply and demand by all activities balance.

The price system, conceived in this way as a process of successive adjustments, is a satisfactory way of choosing operating rules when the appropriate assumptions hold. Each tentative set of rules is defined by the tentative set of transfer prices; the successive adjustments in the prices, and therefore in the rules, require information only about the supplies and demands of the individual activities, information which would have to be transmitted under almost any sensible control system; and there is a guarantee that the decisions at least tend toward full optimality for the organizations.

Though the price system for operating an organization possesses these merits, and though I believe that it is capable of much greater use than it now receives, it has intrinsic limits. Indeed, the very existence of large organizations in the commercial world is a proof of the existence of these limits. When the price system is fully operative, the large organization is equivalent to a large number of separate activities whose connections are the same as those of unrelated firms. Hence, the large organization would

have no differential advantage in economic competition, and we would not expect to find it so dominant.

The difficulties in applying a price system to the control of an organization can be classified into four mutually interacting types: (1) the choice of enforcement rules; (2) the complexity of the operating rules; (3) the limits on the theoretical validity of the price system; and (4) the presence of uncertainty, which we have seen to be inherent in the problem or organizational control.

The first problem, the choice of enforcement rules, has already been discussed in some measure in the case of the large corporation. Since we have supplied each manager with an objective function, the profits of his branch evaluated at transfer prices, the most natural enforcement rule would be an incentive system; the payment to the manager should be a strictly increasing function of the branch profits. If the slope of this relation is close to one, then the branch manager is bearing most of the uncertainties due to successive revisions of the transfer prices for which, as a risk-averter, he may well require a large fixed compensation. If the slope is close to zero, then the incentive effect to the manager is small.

The second problem, the complexity of the operating rules, can be appreciated only after a little reflection on the scope of a really thorough-going price system. The need of coordination in time is perhaps the chief source of complications; deliveries of specific commodities have to be made at specific times, and in a pure price system there would have to be a separate price for each commodity for each possible date of delivery. One might, to take an example from the government's sphere of activity, use a price system to settle traffic problems; there would be varying prices to be paid for different priorities at intersections and in passing lanes at different moments of time. It is not hard to see the confusion such a system would cause; a traffic signal may lead to an allocation of traffic which is less than optimal in some theoretical sense, but it is a far simpler system to operate.

The third problem, the limits on the theoretical validity of the price system, has received a great deal of attention in the literature of welfare economics. There are two basic conditions under which the price system is invalid, in the sense that the equilibrium prices do not represent an optimum: one is that there are increasing returns in some of the activities, and the other is the presence of externalities, relations between the productivities of different activities which are not classified as commodity transfers. Smoke emitted by one activity may, for example, interfere with the productivity of another. Externalities are essentially a matter of classification; we can always call any externality a new commodity and attach a price to it. Indeed, the elimination of externalities can proceed

much farther within an organization than in the market; there is no technically satisfactory way in the marketplace for making the smoke producer pay for his damage to others, but an organization can fix a price for the privilege of emitting smoke and order it to be paid. Of course, special enforcement rules are needed to make sure that the appropriate payments are made. Further, the elimination of externalities increases the list of commodities and thereby again complicates the operating rules.

The fourth difficulty in applying the price system, the presence of uncertainty, is of major importance and yet has received relatively little theoretical study. The case that has been studied in some detail is that in which all activity managers have the same information about the world outside the organization. Clearly, the appropriate transfer prices can easily depend on the unknown state of outside world; the simplest illustration would be the case where production plans have to be made now for sale in the future, and at a price which cannot be known now with certainty. We may regard the organization as being faced with a probability distribution of states of the world, product prices in the example. For each state of the world, there will be a corresponding set of transfer prices, so that each activity manager will be faced with a probability distribution of transfer prices. The instructions to maximize profits is no longer meaningful; it must be replaced by the operating rule of maximizing the expected value of the utility of profits.

There is a deep problem here which is well known in insurance theory and practice under the name of the "moral hazard"; it is, in general, almost impossible to separate causes outside the organization from the efficiency of the manager himself. If an activity does badly, it may be because of uncontrollable external events, or it may be mismanagement. To distinguish between them may never be completely possible and, to the extent that it is, may require costly information. Thus, the occurrence of a fire may be partly due to failure to take precautions or may be completely independent of them; the fire insurance company will not only charge a premium but also engage in additional information-gathering in the form of inspection of premises. Still further complications occur when the different managers have access to different amounts of information about the external world.

CRITIQUE OF PRICE AND PROFIT INCENTIVES

These problems of control by means of a price system—and particularly the problem raised by differing amounts of information among the parties involved—lead me directly to some observations on the widespread notion that the individual has some responsibility to others in the conduct of

his economic affairs. It is held that there are a number of circumstances under which the economic agent should forego profit or other benefits to himself in order to achieve some social goal, especially to avoid a disservice to other individuals. For the purpose of keeping the discussion within bounds, I shall confine my attention to the obligations that might be imposed on business firms. Under what circumstances is it reasonable to expect a business firm to refrain from maximizing its profits because it will hurt others by doing so? What institutions can we expect to serve the function not merely of limiting profits but limiting them in just those ways that will avoid harm to others? Is it reasonable to expect that ethical codes will arise or be created? My purpose in discussing these questions is not so much to achieve definitive answers as to analyze the kinds of considerations that enter into discussing them.

Let us first consider the case against social responsibility: the assumption that the firms should aim simply to maximize their profits. One strand of that argument is empirical rather than ethical or normative. It simply states that firms will maximize their profits. The impulse to gain, it is argued, is very strong and the incentives for selfish behavior are so great that any kind of control is likely to be utterly ineffectual. This argument has some force but is by no means conclusive. Any mechanism for enforcing or urging social responsibility upon firms must of course reckon with a profit motive, with a desire to evade whatever response of controls is imposed. But it does not mean that we cannot expect any degree of responsibility at all.

The second strand involves a rather different argument, which probably strikes the noneconomist as rather strange, at least at first hearing. The assertion is that firms ought to maximize profits; not merely do they like to do so but there is practically a social obligation to do so.

Under the proper assumptions profit maximization is indeed efficient in the sense that it can achieve as high a level of satisfaction as possible for any one consumer without reducing the levels of satisfaction of other consumers or using more resources than society is endowed with. But the limits of the argument must be stressed. I want to mention two well-known points in passing without making them the principal focus of discussion. First of all, the argument assumes that the forces of competition are sufficiently vigorous. But there is no social justification for profit maximization by monopolies. This is an important and well-known qualification. Second, the distribution of income that results from unrestrained profit maximization is very unequal. The competitive maximizing economy is indeed efficient—this shows up in high average income—but the high average is accompanied by widespread poverty on the one hand and vast riches, at least for a few, on the other. To many of us this is a very undesirable consequence.

Profit maximization has yet another effect on society. It tends to point away from the expression of altruistic motives. Altruistic motives are motives whose gratification is just as legitimate as selfish motives, and the expression of those motives is something we probably wish to encourage. A profit-maximizing, self-centered form of economic behavior does not provide any room for the expression of such motives.

If the three problems above were set aside, many of the ways whereby firms affect others should not be tampered with. Making profits by competition is, if anything, to be encouraged rather than discouraged. Wage and price bargains between the firm and uncoerced workers and customers represent mutually beneficial exchanges. There is, therefore, no reason within the framework of discussion to interfere with them. But these examples far from exhaust the list of interactions between businesses and society, and the social desirability of profit maximization does not extend to all such interactions by any means. There are two categories of effects where the arguments for profit maximization break down: The first is illustrated by pollution or congestion. Here it is no longer true (and this is the key to these issues) that the firm in fact does pay for the harm it imposes on others. When it takes a person's time and uses it at work, the firm is paying for this, and therefore the transaction can be regarded as a beneficial exchange from the point of view of both parties. We have no similar mechanism by which the pollution which the firm imposes upon its neighborhood is paid for. Therefore the firm will have a tendency to pollute more than is desirable. That is, the benefit to it or to its customers from the expanded activity is really not as great, or may not be as great, as the cost it is imposing upon the neighborhood. But since it does not pay that cost, there is no profit incentive to refrain.

The same argument applies to traffic congestion when no charge is made for the addition of cars or trucks on the highway. It makes everybody less comfortable. It delays others and increases the probability of accidents; in short, it imposes a cost upon a large number of members of the society, a cost which is not paid for by the imposer of the cost, at least not in full. The person congesting is also congested, but the costs he is imposing on others are much greater than those he suffers himself. Therefore there will be a tendency to overutilize those goods for which no price is charged, particularly scarce highway space.

There are many other examples of this kind, but these two will serve to illustrate the point in question: some effort must be made to alter the profit-maximizing behavior of firms in those cases where it is imposing costs on others which are not easily compensated through an appropriate set of prices.

The second category of effects where profit maximization is not socially desirable is that in which there are quality effects about which the firm

knows more than the buyer. In my examples I will cite primarily the case of quality in the product sold, but actually very much the same considerations apply to the quality of working conditions. The firm is frequently in a better position to know the consequences (the health hazards, for example) involved in working conditions than the worker is, and the considerations I am about to discuss in the case of sale of goods have a direct parallel in the analysis of working conditions in the relation of a firm to its workers. Let me illustrate by considering the sale of a used car. (Similar considerations apply to the sale of new cars.) A used car has potential defects and typically the seller knows more about the defects than the buyer. The buyer is not in a position to distinguish among used cars, and therefore he will be willing to pay the same amount for two used cars of differing quality because he cannot tell the difference between them. As a result, there is an inefficiency in the sale of used cars. If somehow or other the cars were distinguished as to their quality, there would be some buyers who would prefer a cheaper car with more defects because they intend to use it very little or they only want it for a short period, while others will want a better car at a higher price. In fact, however, the two kinds of car are sold indiscriminately to the two groups of buyers at the same price, so that we can argue that there is a distinct loss of consumer satisfaction imposed by the failure to convey information that is available to the seller. The buyers are not necessarily being cheated. They may be, but the problem of inefficiency would remain if they were not. One can imagine a situation where, from past experience, buyers of used cars are aware that cars that look alike may turn out to be quite different. Without knowing whether a particular car is good or bad, they do know that there are good and bad cars, and of course their willingness to pay for the cars is influenced accordingly. The main loser from a monetary viewpoint may not be the customer, but rather the seller of the good car. The buyer will pay a price which is only appropriate to a lottery that gives him a good car or a bad car with varying probabilities, and therefore the seller of the good car gets less than the value of the car. The seller of the bad car is, of course, the beneficiary. Clearly then, if one could arrange to transmit the truth from the sellers to the buyers, the efficiency of the market would be greatly improved. The used-car illustration is an example of a very general phenomenon.

Consider now any newly produced complex product, such as a new automobile. The seller is bound to know considerably more about its properties than all but a very few of its buyers. In order to develop the car, the producer has had to perform tests of one kind or another. He knows the outcome of the tests. Failure to reveal this knowledge works against the efficiency of satisfying consumers' tastes. The argument of course applies to any aspect of the quality of a product, durability or the

ability to perform under trying circumstances or differing climatic conditions. Perhaps we are most concerned about the safety features of the automobile. The risks involved in the use of automobiles are not trivial, and the kind of withholding of safety information which has been revealed to exist in a number of cases certainly cannot be defended as a socially useful implication of profit maximization. The classical efficiency arguments for profit maximization do not apply here, and it is wrong to obfuscate the issue by invoking them.

Perhaps even more dramatic, though on a smaller scale, are the repeated examples of misleading information about the risks and use of prescription drugs and other chemicals. These again manifest the same point. Profit maximization can lead to consequences which are clearly socially injurious. This is the case if the buyers are on the average deceived—if, for example, they have higher expectations than are in fact warranted. They are also injured when on the average they are not deceived but merely uncertain, although here the argument is more subtle. One consequence may be the excessively limited use of some new drugs, for example. If the users of the drugs become fully aware of the risks involved but are not able to assess the risk with respect to any particular drug, the result may be an indiscriminate rejection of new treatments, which is rational from the point of view of the user; this, in the long run, may be just as serious an error as the opposite.

Defenders of unrestricted profit maximization usually assume that the consumer is well informed or at least that he becomes so by his own experience, in repeated purchases, or by information about what has happened to other people like him. This argument is empirically shaky; even the ability of individuals to analyze the effects of their own past purchases may be limited, particularly with respect to complicated mechanisms. But there are two further defects. The risks, including death, may be so great that even one misleading experience is bad enough, and the opportunity to learn from repeated trials is not of much use. Also, in a world where the products are continually changing, the possibility of learning from experience is greatly reduced. Automobile companies are continually introducing new models which at least purport to differ from what they were in the past, though doubtless the change is more external than internal. New drugs are being introduced all the time; the fact that one has had bad experiences with one drug may provide very little information about the next one.

Thus there are two types of situation in which the simple rule of maximizing profits is socially inefficient: the case in which costs are not paid for, as in pollution, and the case in which the seller has considerably more knowledge about his product than the buyer, particularly with regard to safety. In these situations it is clearly desirable to have some idea

of social responsibility, that is, to experience an obligation, whether ethical, moral, or legal. Now we cannot expect such an obligation to be created out of thin air. To be meaningful, any obligation of this kind, any feeling or rule of behavior has to be embodied in some definite social institution. I use that term broadly: a legal code is a social institution in a sense. Exhortation to do good must be made specific in some external form, a steady reminder and perhaps enforcer of desirable values. Part of the need is simply for factual information as a guide to individual behavior. A firm may need to be told what is right and what is wrong when in fact it is polluting, or which safety requirements are reasonable and which are too extreme or too costly to be worth consideration. Institutionalization of the social responsibility of firms also serves another very important function. It provides some assurance to any one firm that the firms with which it is in competition will also accept the same responsibility. If a firm has some code imposed from the outside, there is some expectation that other firms will obey it, too, and therefore there is some assurance that it need not fear any excessive cost due to its good behavior.

ALTERNATIVE MODES OF CONTROL: LEGAL PROCESSES AND ETHICAL CODES

Let me then turn to some alternative kind of institutions that can be considered as embodying the possible social responsibilities of firms. First, we have legal regulation, as in the case of pollution where laws are passed about the kind of burning that may take place, and about setting maximum standards for emissions. A second category is that of taxes. Economists, with good reason, like to preach taxation as opposed to regulation. The movement to tax polluting emissions is getting under way. That is an example of the second kind of institutionalization of social responsibility. The responsibility is made very clear: The violator pays for violations. A third very old remedy or institution is that of legal liability—the liability of the civil law. One can be sued for damages. Such cases apparently go back to the Middle Ages. Regulation also extends back very far. There was an ordinance in London about the year 1300 prohibiting the burning of coal because of the smoke nuisance.

The fourth class of institutions is represented by ethical codes. Restraint is achieved not by appealing to each individual's conscience but rather by having some generally understood definition of appropriate behavior. Let me discuss the advantages and disadvantages of these four institutions.

In regard to the first two, regulation and taxes, I shall be rather brief because these are the more familiar. We can have regulations governing

pollution. We can also regulate product safety. We may even have standards to insure quality in dimensions other than safety. The chief drawback of direct regulations is associated with the fact that it is hard to make regulations flexible enough to meet a wide variety of situations and yet simple enough to be enforceable. In addition, there is a slowness in response to new situations. For example, if a new chemical, such as a pesticide, comes on the market and after a period of time is recognized as a danger, it requires a long, complicated process to get this awareness translated into legal action. One problem is that legislative time is a very scarce factor; a proposal to examine the problem involved in some pesticide may at any time be competing with totally different considerations for the attention of the legislature or regulatory body. In short, there is considerable rigidity in most regulatory structures. For certain purposes it is clear that regulation is best but it is equally clear that it is not useful as a universal device. In the case of taxes on the effects, rather than on the causes, there is a little more built-in flexibility. To combat pollution, taxation is probably the most appropriate device; a tax is imposed on the emission by the plant, whether in water or in air. Now this means that the plant is free to find its own way of minimizing the tax burden. It is not told it must do one thing; such as raising smokestacks to a certain height. It is free to try to find the cheapest way of meeting the pollution problem. It may well decide that the profitability situation is such that it will continue to pollute and sell the product presumably at a somewhat higher price. This decision is not necessarily bad; it implies that the product is in fact much desired and it provides an automatic test of the market to see whether it is worth polluting or not, because in effect the consumer is ultimately paying for the pollution he induces. However, it is difficult to see how this method, useful though it is in the case of pollution, would have any relevance to safety, to see how one could frame a tax which would make very much sense. Taxation appears to be a rather blunt instrument for controlling product safety.

Legal liability can be and has been applied; i.e., courts have allowed damages in cases arising out of pollution or out of injury or death due to unsafe products. The nature of law in this area is still evolving; under our system this means that it is being developed by a sequence of court decisions. Just exactly what the company or its officers have to know before they can be regarded as liable for damages due to unsafe products is not yet clear. No doubt it would certainly be held even today that if officers of a company were aware that a product had a significant probability of a dangerous defect and they sold it anyway without saying so, and if the defect occurred, legal liability would be clear. But it is frequently hard to establish such knowledge. No doubt if society wants to use the route of legal liability as a way of imposing social responsibility, then it can

change the principles on which the decision is based. For example, one might throw the burden of proof on the company, so that in the case of any new product they have to run tests to show positively that it is safe. Their failure to make such tests would be an indication of their liability. One could imagine changes of this kind which would bring the law more into line with what is desirable. But there are some intrinsic defects in the liability route which, in my opinion, make it unsuitable in its present form as a serious method of achieving social control or of imposing responsibility on profit-making firms. First, litigation is costly. In many cases there are social wrongs or social inefficiencies which are quite significant in the aggregate and are perceived by a large number of people, each of whom bears a small part of the cost. This is characteristic of pollution and may be the case with certain kinds of quality standards. It really does not pay any particular person to sue, and if a few people do sue it does not really do the company much harm.

Another problem is that the notion of liability in law is really too simple a concept. Legal liability tends to be an all-or-none proposition. Consider a product such as plastic bags. They are perfectly all right for storing clothes or food but there is a risk that small children will misuse them, with serious consequences. One would hardly want to say that there is any legal liability ascribable to the plastic-bag makers, for even the safest product can be misused. On the other hand, one might argue that a product that can be misused ought to be somewhat discouraged and perhaps some small degree of responsibility should be imposed, particularly if no adequate warning is issued. The law does not permit any such distinctions. Thus, in an automobile case, one party or the other must be found wrong, even though in fact a crash may clearly be due to the fact that both drivers were behaving erratically, and it would be reasonable to have some division of responsibility. At present, with some minor exceptions, the law does not permit this, and I suppose it would confuse legal proceedings irreparably to start introducing partial causation. Economists are accustomed to the idea that almost nothing happens without the cooperation of a number of factors, and we have large bodies of doctrine devoted to imputing in some appropriate way the consequences of an action to all of its causes. It is for these reasons that this kind of crude liability doctrine seems to be unsuitable in many cases.

A number of other problems with litigation could be mentioned. Consider very high-risk situations that involve a very low probability of death or other serious adverse consequence, as in the case of drugs, or possible radiation from nuclear power plants. The insurance companies are willing to insure because the probability is low. But once insurance is introduced the incentive to refrain from incurring the risk is dulled. If you are insured against a loss you have less of an incentive to prevent it. In the field of

automobile liability, it has become clear that the whole system of liability has to a very great extent broken down. The result is a widespread movement toward no-fault insurance, which in effect means people are compensated for their losses but no attempt is made to charge damages to the persons responsible. Responsibility is left undecided.

Finally, litigation does not seem suitable for continuing problems. Pollution will be reduced but not eliminated; indeed it is essentially impossible to eliminate it. There remain continuous steady damages to individuals. These should still be charged to firms in order to prevent them from polluting more. But enforcement by continuous court action is a very expensive way of handling a repetitious situation. It is silly to keep on going to court to establish the same set of facts over and over again. For these reasons taxes which have the same incentive effects are superior.

Let me turn to the fourth possibility, ethical codes. This may seem to be a strange possibility for an economist to raise. But when there is a wide difference in knowledge between the two sides of the market, recognized ethical codes can be, as has already been suggested, a great contribution to economic efficiency. Actually we do have examples of this in our everyday lives, but in very limited areas. The case of medical ethics is the most striking. By its very nature there is a very large difference in knowledge between the buyer and the seller. One is, in fact, buying precisely the service of someone with much more knowledge than you have. To make this relationship a viable one, ethical codes have grown up over the centuries, both to avoid the possibility of exploitation by the physician and to assure the buyer of medical services that he is not being exploited. I am not suggesting that these are universally obeyed, but there is a strong presumption that the doctor is going to perform to a large extent with your welfare in mind. Unnecessary medical expenses or other abuses are perceived as violation of ethics. There is a powerful ethical background against which we make this judgment. Behavior that we would regard as highly reprehensible in a physician is judged less harshly when found among businessmen. The medical profession is typical of professions in general. All professions involve a situation in which knowledge is unequal on two sides of the market by the very definition of the profession, and therefore there have grown up ethical principles that afford some protection to the client. Notice there is a mutual benefit in this. The fact is that if you had sufficient distrust of a doctor's services, you wouldn't buy them. Therefore the physician wants an ethical code to act as assurance to the buyer, and he certainly wants his competitors to obey this same code, partly because any violation may put him at a disadvantage but more especially because the violation will reflect on him, since the buyer of the medical services may not be able to distinguish one doctor from another. A close look reveals that a great deal of economic life depends for its

viability on a certain limited degree of ethical commitment. Purely selfish behavior of individuals is really incompatible with any kind of settled economic life. There is almost invariably some element of trust and confidence. Much business is done on the basis of verbal assurance. It would be too elaborate to try to get written commitments on every possible point. Every contract depends for its observance on a mass of unspecified conditions which suggest that performance will be carried out in good faith without insistence on sticking literally to its wording. To put the matter in its simplest form, in almost every economic transaction, in any exchange of goods for money, somebody gives up his valuable asset before he gets the other's: either the goods are given before the money or the money is given before goods. Moreover there is a general confidence that there won't be any violation of implicit agreement. Another example in daily life of this kind of ethics is observance of queue discipline. People line up; there are people who try to break in ahead of you, but there is an ethic which holds that this is bad. It is clearly an ethic which is in everybody's interest to preserve; one waits at the end of the line this time, and one is protected against somebody's coming in ahead of him.

In the context of product safety, efficiency would be greatly enhanced by accepted ethical rules. Sometimes it may be enough to have an ethical compulsion to reveal all the information available and let the buyer choose. This is not necessarily always the best. It can be argued that under some circumstances setting minimum safety standards and simply not putting out products that do not meet them would be desirable and should be felt by the businessman to be an obligation.

Now I've said that ethical codes are desirable. It doesn't follow from this that they will come about; an ethical code is useful only if it is widely accepted. Its implications for specific behavior must be moderately clear, and above all it must be clearly perceived that the acceptance of these ethical obligations by everybody does involve mutual gain. Ethical codes that lack the latter property are unlikely to be viable. How do such codes develop? They may develop as consensus out of lengthy public discussion of obligations, discussion which will take place in legislatures, lecture halls, business journals, and other public forums. The codes are communicated by the very process of coming to an agreement. A more formal alternative would be to have some highly prestigious group discuss ethical codes for safety standards. In either case, to become and to remain a part of the economic environment, the codes have to be accepted by the significant operating institutions and transmitted from one generation of executives to the next through standard operating procedures, through education in business schools, and through indoctrination of one kind or another. If we seriously expect such codes to develop and to be maintained, we might ask how the agreements develop, and, above all, how the

codes remain stable. After all, an ethical code, however much it may be in the interest of all, is, as we remarked earlier, not in the interest of any one firm. The code may be of value to the running of the system as a whole, it may be of value to all firms if all firms maintain it, and yet it will be to the advantage of any one firm to cheat—in fact the more so, the more other firms are sticking to it. But there are some reasons for thinking that ethical codes can develop and be stable. These codes will not develop completely without institutional support. That is to say, there will be a need for focal organizations, such as government agencies, trade associations, and consumer defense groups, or all combined, to make the codes explicit, to iterate their doctrine and to make their presence felt. Given that help, I think the emergence of ethical codes on matters such as safety, at least, is possible. One positive factor here is something that is a negative factor in other contexts, namely, that our economic organization is to such a large extent composed of large firms. The corporation is no longer a single individual; it is a social organization with internal social ties and internal pressures for acceptability and esteem. The individual members of the corporation are not only parts of the corporation but also members of a larger society whose esteem is desired. Power in a large corporation is necessarily diffused; not many individuals in such organizations feel so thoroughly identified with the corporation that other kinds of social pressures become irrelevant. Furthermore, in a large, complex firm where many people have to participate in any decision, there are likely to be some who are motivated to call attention to violations of the code. This kind of check has been conspicuous in government in recent years. The Pentagon Papers are an outstanding illustration of the fact that within the organization there are those who recognize moral guilt and take the opportunity to blow the whistle. I expect the same sort of behavior to occur in any large organization when there are well-defined ethical rules whose violation can be observed.

One can still ask if the codes are likely to be stable. Since it may well be possible and profitable for a minority to cheat, will it not be true that the whole system may break down? In fact, however, some of the pressures work in the other direction. It is clearly in the interest of those who are obeying the codes to enforce them, to call attention to violations, to use the ethical and social pressures of the society at large against their less scrupulous rivals. At the same time, the value of maintaining the system may well be apparent to all, and no doubt ways will be found to use the assurance of quality generated by the system as a positive asset in attracting consumers and workers.

One must not expect miraculous transformation in human behavior. Ethical codes, if they are to be viable, should be limited in their scope. They are not a universal substitute for the weapons mentioned earlier, the

institutions, taxes, regulations, and legal remedies. Further, we should expect the codes to apply only in situations where the firm has superior knowledge of the situation. I would not want the firm to act in accordance with some ethical principles in regard to matters of which it has little knowledge. For example, with quality standards which consumers can observe, it may not be desirable that the firm decide for itself, at least on ethical grounds, because it is depriving the consumer of the freedom of choice between high-quality, high-cost products and low-quality, low-cost products. It is in areas where someone is typically misinformed or imperfectly informed that ethical codes can contribute to economic efficiency.

FOOTNOTE

*This paper is composed of excerpts from Professor Arrow's Presidential Address to The Institute of Management Sciences (1963) and his Carl Snyder Memorial Lecture (1972), both of which have been separately published elsewhere. K. J. Arrow, "Control in Large Organizations," *Management Science*, April 1964, X, pp. 397-408; "Social Responsibility and Economic Efficiency," *Public Policy*, XXI, Summer 1973, pp. 303-317.

THE CORPORATE RESPONSE PROCESS*

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INTRODUCTION

This document is an attempt to develop a structured agenda for empirical research, analytical writing, and development of the topic which has generally been known as "corporate social responsibility." The substitution of the term "corporate responsiveness" for the more generally popular label is in itself a reflection of our improved understanding of the phenomenon under consideration.

As one looks at firms in the process of becoming "responsive," the distinction between "social" and "business" issues breaks down in a variety of ways. One reason is the indeterminate status of the issues. In

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some instances community relations activities may be virtually devoid of business advantage, and in others the business aspect will be dominant. In most instances they can be viewed through a business lens or a social lens, or both—and it makes a difference. The same can be said of equal employment, employee health and safety, consumerism, pollution abatement, even corporate giving. Another reason is that the individual issues interact with each other, a current example being the energy crisis and pollution abatement programs. And a final, and less well understood, consideration is the extent to which issues which are substantively dissimilar can pose similar or identical problems. The problem of scanning the environment for changing consumer values is not much different from scanning it for emergent social demands. On the level of implementation, the institutionalization of *any* new policy has certain features in common with any other new policy, whether the issue be social or exclusively business. The establishment of a corporate-wide uniform purchasing policy faces many of the same organizational problems as does a policy of equal employment opportunity. From either, one can learn lessons applicable to the other.

We are witnessing the development of a “responsive” corporation, one that is learning to institutionalize novelty. And if the corporation is in fact learning, it should be increasingly capable of handling new issues whether they be “business” or “social.” It is reasonable to expect the development of a new breed of managers. They will probably have different values, as has been rather widely suggested. But, probably more importantly, they will be accustomed to and skilled at organizational change.

THREE STAGES OF RESPONSIVENESS

At times the words available to us are more precise in their connotation than are the phenomena to which we refer. Roughly speaking we may say that the response process consists in realizing that some issue exists, deciding whether to do something about it, and—if the answer is affirmative—deciding what to do about it, and finally doing something. But there are flaws even in this low-keyed statement. “Realizing that some issue exists” implies that the issue has some defined meaning independent of the observer, whereas a crucial part of the process is the giving of a definition. “Deciding” implies some intellectual process which, if not rational, is at least deliberate, and this is far from necessarily so. Furthermore, the sequence of steps which seems so natural indicates a degree of orderliness that is illusory. For example, the issue continues to be redefined in the process of implementation, and the process of implementation is often the means for identifying and defining new issues.¹

With all these caveats on the limitations of language, I will proceed to treat the response process under the three headings of *identification*, *commitment*, and *implementation*. The literature on corporate responsiveness and the private expressions of concern by businessmen place a heavy emphasis on the first two stages, stressing the desirability of early "detection" (seldom does anyone acknowledge the active process of "defining" what is out there) of issues, and a wise selection of what issues to respond to at what time.

Let us imagine the response process as something that begins when an issue has reached the point where it should be considered seriously and ends when implementation is in some sense "complete." My own sense of the meaning of "complete" may be illustrated with the issue of equal employment opportunity. "Completeness" does not mean that the job is entirely done in that minorities and women have achieved employment parity. "Completeness" means that organizational changes have been made—and stabilized—so that, if they continue to function as intended, "parity" (whatever that means) will be achieved within some agreed-upon time period. Thus, the completion of the response process is not the accomplishment of a particular goal but the changing of behavior so that the goal will be accomplished and will continue to be accomplished. Whether this nice distinction will hold up in the real world is in itself a very interesting empirical question. An historical study of the relationship of the U.S. Steel Company to the C.I.O. in the thirties indicates the distinction is meaningful [10]. U.S. Steel institutionalized revised control and reward systems and a system of supervisory training to introduce a new era of labor relations. After some years this system atrophied as the new mode of labor relations became routine. I would regard the response process as completed at the point at which the new management procedures were in effect and required no more than routine attention.

If we take this view of the response process from beginning to end, research to date indicates that speed in identifying issues or in committing the organization to action may be overemphasized for most of the social issues that are of present concern. At least they have been overemphasized relative to implementation if one is intent on shortening the response process as a whole. Even when responses have been mandated by law, the process of implementation may take a decade or more in well-run companies with well-motivated managers, particularly when the required behavioral changes are complicated.

It is not my intention here to argue or document the actual or potential complexity of the implementation phase of the response process at this point. For some issues the implementation phase may, in fact be quite short and simple. A change in contributions policy *can* be accomplished rather rapidly. The point to be made is that the relative importance, com-

plexity, and duration of the three processes of identification, commitment, and implementation will vary from issue to issue and probably from organization to organization. One of the causes of variation in all phases of the response process may be the perceived legitimacy of the actions to be taken, and this, in turn, is likely to be closely, but possibly imperfectly, related to the extent to which the issue is seen to be akin to the organization's regular business activities. Other sources of variation will be the initial clarity of the issue, the urgency of the issue, the viability of proposed actions, the structure of the organization, the number of organizational levels involved in implementation, the extent to which an issue cuts across the ways in which business organizations are structured to handle issues, the extent to which an issue is seen as appropriate for the private sector, and so on.

The above sources of variation probably are most associated with variations among issues (rather than among industries, and individual firms) though industries and individual firms may have characteristics that affect their position on some of these dimensions. In any event, what is important is to recognize the possibility or probability of intrinsic reasons for variation in the relative importance and difficulty of the several phases of the response process, particularly on an issue-to-issue basis. This will not only identify key stages of the process which are most in need of facilitation, but probably illuminate the response process in general[6].

IDENTIFICATION OF ISSUES

Detection of Issues

A variety of formal and semiformal procedures exists for identifying existing, and anticipating future, developments of potential importance to business organizations. These procedures go under such names as environmental scanning, early warning systems, technological and social forecasting, future analysis, and the like.² The sources and content of inputs are too numerous to permit enumeration, but they vary from informal scanning of the media and conversations with persons of varying expertise, to formal econometric and demographic analysis and forecasting, to the writing of future scenarios and forecasting via the Delphi technique, using panels of experts under controlled conditions, to the sensitive monitoring of the legislative process. Some of the work is done within the firm, and some is syndicated by various commercial organizations. The collection, evaluation, and analysis of such inputs is usually relatively centralized in some function as long range planning to the extent

that it concerns the future. As it concerns the present, it is more likely to relate to some function such as finance, marketing, purchasing, and so on.

Information about the existing state of the world relating to regular business concerns is gathered and processed relatively routinely by regularly established functional units of the organization. The uses and usefulness of such information is fairly well established on the basis of long experience. To the extent that information pertains to the future and/or to issues progressively remote from regular business issues, both the gathering and use of the information is less well organized and understood. This may, perhaps, be tautological, but it directs our attention to the need to understand better the use of such information, and to the instability of arrangements for gathering and using it.

As of now we have not been able to develop a satisfactory conceptual approach to handle the full scope of the problems associated with the anticipation and detection of issues relevant to corporate responsiveness. For a beginning, several approaches suggest themselves which may yield convergent information and understanding, and thus will eventually permit us better to grasp the overall phenomenon.

The first is the study of *formal arrangements* for environmental scanning. Probably this will yield most if it is done on a comparative basis where the comparison is made between traditional and "new" issues. The comparison would include the formal arrangements for gathering such information, the ways in which the two types of information are processed in the organization, the ways in which traditional types of information are used for "new" purposes and vice-versa (e.g., demographic projections used both for market analysis and anticipating social problems).

Studies may concentrate on *particular areas of concern*. For example, how is a given firm organized to handle external information relevant to equal employment opportunity with regard to such things as: impending legislation and regulation, interpretations of existing legislation, public attitudes toward the issue, developments in civil rights and the feminism movement, the existence and tactics of interest groups, the experiences of other firms in dealing with the issue, technical developments such as information on possible biases in tests of ability, impending developments such as opportunities for ethnic minorities?

There is also merit in detailed studies of *individual incidents* or in the origins of *specific programs* in which the firm is engaged. Such case studies are especially useful for illuminating the sorts and sources of informational inputs which would not be identified by a more frontal approach to environmental scanning. The ideal approach would be to take a random sample of important actions—both regular business and "other"—taken within the firm and trace their origins backward to iden-

tify what external inputs, if any, precipitated the action in question. Such an approach paralleled by tracing the course of a random sample of inputs (recognizing that such inputs may be blocked, distorted, or lost) would probably be the conceptually ideal method of understanding the detection process. The magnitude of such an effort and its demands on individual organizations almost certainly make it impractical. Yet, it does underscore the merits of individual case studies which trace the input origins of specific incidents and actions.

The preceding discussion has focused on anticipation and detection of issues—the establishment of the fact that “something” relevant is out there. Even the judgment of relevance involves some element of definition of the issue, a matter to which we now turn.

Definition of Issues

The process of issue definition begins with the decision as to what type of information is relevant, and therefore determines what channels of information will be monitored, the way in which one organizes to monitor information, and the type of personnel who are selected to do the monitoring. The next stage is the determination of the relevance of specific information. This will be affected by the previous decision as to what *types* of information an organization has concluded are relevant, but modified by such additional factors as the organizational position of a particular individual—both where he is located, and how he relates his own career to the organization—and his personal characteristics. The final stage is the giving of substantive meaning to what has been perceived, answering the question, “What is it?” In all probability the second and third stages are separable only analytically, since a decision of relevance clearly implies at least some provisional attribution of meaning.

An organizational “decision” as to what types of information are relevant will be reflected in the formal scanning mechanisms that are established. Surveys have been made to study the existence of such mechanisms from time to time. Such studies should be extended, and the existence of formal scanning systems should be analyzed by the nature of their coverage and by relevant characteristics of firms. Survey data, however, are unlikely to give much understanding of the functioning of such systems. Therefore, surveys should be considered as complementary to the case studies of such systems suggested above. Such information should be valuable in understanding the responsiveness of individual firms and of firms in various industries. Individuals will also vary in the content of the personal “scanning systems,” e.g., what they read, whom they associate with, and so on. Such behavior will be integral to understanding the responsiveness of individual firms.

The attribution of substantive meaning to “something out there” can,

of course, be a matter of infinite complexity. However, two pairs of categories seem to be of value in studying the attribution of meaning. These are whether an issue is seen as "social" or "business" and whether it constitutes a "threat" or an "opportunity." As a matter of fact, a given issue may change status on these dimensions in the course of its consideration.

A good example of an issue which went through several stages of redefinition was identified by Edwin Murray in his study of a bank's policy of offering free checking to the elderly [11]. When the bank was first approached by the elderly the issue was seen as one that posed both a social and a business threat. As the public relations possibilities were explored it was seen as offering a social benefit and a possible minor business payoff that did not offset the main business threat. Further analysis revealed a business advantage. In the end, the package prepared for the elderly was seen as an opportunity which was quickly exploited in another market.

It would appear that the response process functions best when an issue has been perceived from both a "business" and a "social" perspective and when both threats and opportunities have been explored. But it is not clear when and how this occurs nor how rapidly and thoroughly it can be expected to happen. This might be studied as a distinct aspect of the response process across a number of firms and a number of issues. It is likely, however, that the process of giving meaning to an issue is so integral to the response process as it proceeds through time that it may be easier and more fruitful to study it in the context of longitudinal studies of responses to specific issues.

Summary

The process of identification, of detecting and defining issues, is one aspect of the corporate response process which can be treated as analytically distinct. When it can, or should, be studied empirically as separate from other aspects of the response process is a matter of research strategy, opportunity, and probably of the particular problem to which it is addressed. Categories of research which have been identified are:

1. Studies of formal or semiformal arrangements for scanning the environment. This would include surveys of the existence of such arrangements and more intense studies of their functioning, including the uses to which such information is put. A useful strategy might be to compare the collection and use of regular "business" and "social" information.
2. Studies of detection and definition of issues associated with specific issue areas. Relative to the preceding category of research, these studies should permit a better exploration of the uses of information, and of the role of both formal and informal informational inputs.
3. Studies of specific incidents and actions to trace the informational

inputs that precipitated them. This permits a further exploration of informal sources of informational input, and the relative effectiveness of various sorts and sources of information as it actually affects action.

4. Studies of the process of giving substantive meaning to issues, with specific reference to facilitating the process whereby both "business" and "social" aspects, and both "threats" and "opportunities" are considered as appropriately as possible.

COMMITMENT TO ISSUES

A key phase in the response process is the selection of issues to which to respond, and eventual commitment to an effective organizational response, by corporate officers with sufficient clout. This phase is not well understood, has been little researched, and is likely to be difficult to research. The conventional way of referring to this phase of the response process is "deciding which issues to respond to." This phrasing has three misleading connotations. It implies deliberateness, discretion, and a one-shot process with a relatively short duration.

The process whereby a business firm becomes committed to some course of action is almost invariably less elegant, more complex, and less marked by conscious deliberation than is implied by the word "decision." This is true for regular business matters as well as for matters outside of regular business concerns.³ Furthermore, as should be quite obvious, many of the issues on which business is being asked to respond are matters of law, and the operative question is not that of whether to respond or not, but rather when and how to respond, and with what degree of commitment. Finally, the process is one of long duration. Where the undertaking of a program is in fact discretionary, making the initial commitment may take months or years.

With respect to mandated issues, conformance to the law is quite variable, and this variability is founded in the same sorts of perceptions and decisions as are implied as the basis for deciding on whether to respond to "voluntary" issues. Decisions as to when and how to respond on mandated issues deserve as much, if not more, attention than decisions to respond to voluntary issues. The latter are not as important to society—if we may take passage of a law as evidence of priority—and they may have less consequence for the firm. Furthermore, decisions to respond to non-mandated issues are more complicated, both as to how they *ought* to be made and how they actually *are* made.

Whatever the limited rationality and limited coherence of regular business decisions, decisions on "social" policies are far less orderly, as might be expected. Ideally, the selection of social issues on which to

respond would reflect some coherent strategy; and decisions would be implemented in a manner consistent with that strategy. Guidelines for selection of social issues to which to respond ought to include such criteria as the intrinsic importance of the issue, the appropriateness of the private sector as the locus of response, the capability of business and of the individual firm in particular to deal with the issue, and its fit with *some* coherent strategy.

Studies should continue of both prevailing and best practice in exploration of the extent to which the process of issue selection and commitment can or ought in fact to be rationalized. Attention should be concentrated on the roles of chief executive officers, of corporate social responsibility committees, and of boards of directors, of corporate staff, and of line officers in a position to take independent initiative. These studies should be executed with only a tenuous assumption of a straightforward notion of rationality. Experience with the study of regular business decisions suggests the possibility that prevailing practice may reflect more wisdom than is quickly apparent.

In addition to studies of current decisions to respond to nonmandated social issues, studies should be made of recent past actions of business firms. A fair amount of literature on this topic exists. It should be reviewed with an eye to answering questions of the appropriateness of various activities for private sector response both from the point of view of where social priorities should be set, and whether or not given types of activity fit the skills and resources of businessmen and business firms. Where such activities seem appropriate for business to undertake, reasons for success and failure should be reviewed.

The Timing of Commitments

The foregoing pertains to *how* organizational commitments to social responses are made. There is also the question of *when*—the timing of such commitments. To a large extent, perhaps entirely, *when* is tied to *how*. It is notorious that the automobile industry was aware of the safety issue but did not act. The industry responded to signals from the marketplace, but not to nonmarket signals. What must be remembered, however, is that the process of decisionmaking affects both the content and the timing of the firm's commitment. Moreover, the initial commitment is only the beginning of a much longer process in which top management, with varying degrees of conscious deliberateness, reassesses its objectives and its allocation of attention, energy, and other resources to meet the objectives to which it is ostensibly committed.

When we consider that this process continues over a long time—and that much of it occurs inside the heads of top executives and/or in meetings of top executives—the difficulty of researching it becomes obvious.⁴

Such research is intrinsically difficult. Mental processes cannot be observed directly by researchers, and—to the extent that they are largely unconscious—not even by the actor himself. Furthermore, these are the sorts of actors who, by virtue of their business and the importance of what they are doing, present the most difficult problems for sustained research access. For these reasons, research on the commitment process may require compromises which one would like to avoid—such as reconstructing events which are much more reliably studied while they are occurring. In addition, when commitment occurs at a level below the top, a number of questions become interesting. Why does a group, division, or department decide to adopt certain policies or programs that are not sponsored throughout the corporation? Why are some operating units generally more progressive than others in the same corporation? Is this related to the content or circumstances of the business?

For a variety of reasons, the ideal research design for studying the commitment process would be to establish continuing research sites in a number of firms which would vary on a variety of dimensions. There is good reason to believe that all of the following dimensions affect both the extent and the content of corporate commitment to social issues: consumer vs. industrial market; divisionalized vs. integrated structure; progressive vs. conservative management; expanding vs. stable vs. contracting market; expanding vs. stable vs. contracting firm; prosperous vs. nonprosperous; regulated vs. unregulated; local regulation (utilities) vs. national regulation (airlines). Even with a certain amount of ingenuity of research design (such as use of a Latin square) it would be manifestly impossible to maintain continuing research sites to cover all these dimensions. Under ideal *practical* circumstances, one would aim at a few intensive research sites coupled with more extensive exploration along these various dimensions.

The reasons for studying the commitment process in an ongoing research site are to pick up individual issues as soon as possible, and to understand the context in which the issue arises and is handled. The latter point may need some explication. Any executive treats any new issue in the context of his ongoing responsibilities. These ongoing activities determine whether or not he notices the issue, the amount of attention he gives it, how he defines it, and whether and how he will pursue it. Such matters are best understood if observed as they occur.

Again, if we were to specify ideal conditions, the commitment process would be studied in the context of the overall process of implementation, since the maintenance of commitment is as important as its initial establishment. When we have known what was happening throughout an organization which was dealing with a “social” issue it became a matter of obvious interest to relate top management perception of what was occur-

ring to our own perception of what was occurring. In some instances top management's perception was manifestly incorrect. The problem was not so much one of incorrect factual information, but more of inadequate understanding of the process being managed. However, our developing general understanding of the implementation process may make possible substantial compromises on the extent to which all dimensions of the implementation of specific policies need be observed in order to understand the commitment process.

Recognizing that practical constraints will force relaxation of conditions for ideal research on the commitment process, there are a variety of types of studies which should prove worthwhile, and which generally speaking have not been done: chief executives dealing with one or more "social" issues, preferably over some period of time; boards of directors doing the same; the operation of "social responsibility committees" of boards of directors; the operation of other social policy committees within business firms. Among the questions to be explored are: Is there coherence, whether conscious or not, to the pattern of things to which a firm is committed? Do "social policies" fit into an overall corporate strategy? Who effectively makes commitments? What is the process whereby a perceived issue results or does not result in commitment? How is continued commitment managed during the process of implementation?

Ingenious researchers may well find ways of designing such studies so as to amplify their powers of illumination. For example, line managers must regularly deal with matters that are beyond their primary competence. For these matters a system of staff roles has evolved to provide advice to line management on such matters as public and governmental relations, technical topics, marketing and advertising, and so on. Current issues of social responsiveness have expanded the number of such staff roles. Thus, the commitment process involves line managers in learning to use a new set of advisors. The development of this advisory relationship may be studied in comparison with the use of established advisors.

The resolution to commit an organization to any new policy is an intensely personal one. The conventional approach, which, as might be expected, I find to be inadequate, is to discuss this in terms of the values of executives. No doubt values are important, but there are cognitive dimensions which may be of equal importance. The way a person sees the world is not necessarily the way he wishes it were; and the way he sees it working is not necessarily the way he wishes it would work. The corporate counsel for Executive A may tell him something is legal, but the counsel for Executive B may tell him the opposite. People vary in their tolerance of ambiguity and in their capacity to rationalize. While such dispositions are probably related to certain patterns of values, the relationship is undoubtedly complex and imperfect. Studies of the commit-

ment process invite consideration of the fullest range of personal and background variables, and, whether studied or not, they will be relevant.

Finally, it is necessary once more to assert that what can be separated analytically cannot necessarily be separated empirically. The commitment process must be understood in the context of the entire response process. I have pointed out that the implementation phase places continuous demands on the commitment process. The identification phase has similar relevance. The detection subphase will determine whether an issue will be raised, and the definition subphase will determine what is reacted to. The interface between the identification and commitment phase will be an interesting point of observation for purposes of understanding how well each serves the other.

Summary

Analytic writing and empirical research on the commitment phase of the response process are needed. The commitment phase should be viewed as a complex social-psychological process of extended duration which is separable only analytically from the identification and implementation phases. A number of dimensions were identified which may be presumed to affect the extent and content of the response process. In addition, because of the intensely personal nature of the commitment process, as full a range as possible of personal and background characteristics should be taken into consideration. Several types of research may be suggested.

1. Studies of *commitment-making entities*, managers, and committees which commit business organizations to the pursuit of major objectives. Insofar as possible, such studies should be done in the context of regular business activities, and should compare the handling of regular business and social issues as well as the interaction of the two. The focus here is on the go/no-go decisions, and the relation or lack thereof of social policy to corporate business strategy.

2. The *management of commitment* through the course of the implementation process, the review and maintenance of commitment, and its communication to the organization.

3. Micro-studies of the *commitment process*, including detailed studies of the actual circumstances precipitating specific commitments, the social-psychological process of learning to use new types of staff advisers, the role of values, cognitive models of social and organizational processes on commitment, and so on.

4. Studies which focus on the *locus of initiative* for commitment within a firm. The ability to create commitment may be relatively widely distributed in the firm, and the matters on which commitments are made may vary with the locus of the initiative taken. Furthermore, the commitment

process itself may vary in dependence on the locus of initiative. Thus, a middle-level manager will face a different situation if he initiates a commitment that can be fulfilled with resources already under his control than if he must obtain those resources from higher levels of management.

IMPLEMENTATION OF POLICIES AND PROGRAMS

Problems of implementation vary on a number of dimensions. The distinction between policies and programs is intended to signal one of those dimensions. A *policy* may be a broad statement of principle designed to guide behavior across a wide range of situations, e.g., being a good corporate citizen. Or it may pertain to some particular domain of activities such as support for higher education, equal employment, and so on. As the abstract and general become more concrete we begin to talk about *programs*, which are specific bundles of activities designed to convert policies into action. Such programs may range from a regular review of hiring practices to the establishment of a system for delivery of food to needy families in the community. The dimension, as indicated, is from the general and abstract to the specific and concrete.

Policies and programs themselves vary as to the locus of initiative and the locus of execution. Generally speaking we may identify three types of policies and programs: (1) those initiated and executed at the corporate level; (2) those initiated at the corporate level and executed at the operating level; and (3) those initiated and executed at the operating level. The discussion will be organized along these three categories. Since the implementation problems of policies and programs initiated at the corporate level and executed at the operating level are apparently by far the most complex, we will discuss them last.

Problems of implementation also vary according to the structure of the organization, particularly between product/market divisionalized firms and single business firms. Because the product/market divisionalized firm is dominant among large firms, our discussion will be directed toward that particular form with qualifications entered when relevant.

Initiation and Execution at the Corporate Level

Social policies and programs initiated and executed at the corporate level tend to be limited to corporate giving and the involvement of top management and staff in outside activities. Generally speaking, the implementation of such policies and programs causes the least organizational difficulty, since they do not require the participation of other units of the organization. The major limitation on such policies and programs seems to be the lack of enthusiasm of managers on the operating level for

the drain which these activities put on corporate funds⁵ and top executive time and energies. This source of strain between headquarters and operating divisions is in itself probably worth studying in a period in which the chief executive's activities are being directed increasingly outside the firm, and in which corporate headquarters is pressuring operating units to execute policies which have been initiated at the corporate level.

From my present perspective, policies and programs initiated and executed at the corporate level do not seem to provide a very rich area of research, although some aspects are not totally without interest. The implementation of corporate giving is worth studying from several perspectives. If there is an explicit policy, what provision is made for keeping the program consistent with that policy? To what extent is the actual execution consistent with stated policies? If there are inconsistencies, what forces affect this distortion? Where top executives are involved in outside activities, what controllable factors affect their effectiveness? For example, a large national company moved into a medium-sized mid-western city. The chief executive began showing up at meetings of community organizations accompanied by staff members who did support work for the organizations. This set an example for other firms and substantially enhanced the contribution of the business community to the larger community. Are there any strictly managerial problems associated with programs both initiated and executed at the corporate level?

Initiation and Execution at the Operating Level

Here I shall define "initiation" as either undertaking a policy or program that falls outside of corporate policy or implementing an activity covered by corporate policy with a degree of commitment that clearly exceeds corporate commitment. Thus, some divisions of firms which have been studied show a degree of commitment to pollution control or equal employment opportunity that cannot be explained by corporate commitment. Some divisions have aided minority businesses in the absence of a corporate policy to this effect. In some corporations, corporate officers have deliberately refrained to this point from establishing a corporate policy on occupational health and safety, "leaving it to the divisions." Community relations programs are often initiated at the level of the local plant.

The term "operating level" also requires some specification. To the extent that operating units such as groups or divisions are composed of smaller operating units (divisions in groups, and departments in divisions) which are relatively autonomous businesses, the problems of implementation at the group or divisional level should be a minor version of those for implementing a corporate-wide policy which has to be executed on the operating level. The problem, in a nutshell, is one of how to get a rela-

tively autonomous unit whose executives are rewarded on the basis of financial performance to undertake activities to which they are not accustomed and for which they are not rewarded.

Within any business unit, the problems of implementation seem to be little different than those of implementing a corporate policy on the same issue. To be specific, if a department head becomes committed to a community relations program, the job before him is —except in a few ways I will specify—similar whether he came to it out of personal conviction or because of pressure from headquarters. Aside from some probable difference in his own level of enthusiasm for the task, it also seems likely that the organization is likely to respond with more alacrity to a locally initiated policy or program for the simple reason that it is more likely to be clearly relevant to that segment of the business and/or one or more of its constituencies. This, however, is a difference in motivation rather than a difference in the management task of execution. However, this possible difference in motivation may offer an interesting research control. For example, it would be interesting to compare two manufacturers of electronic components (or any other type of business), one of which had adopted a policy under its own initiative, and the other of which had adopted a parallel policy under pressure from corporate headquarters. While the sample would be small and the control over motivation crude, it is conceivable that such a comparison might give us some clue as to which aspects of implementation are intrinsically difficult, and which are simply neglected due to the relatively low priority given social issues of primary interest to someone else.

The fact that an operating business may be a subdivision of a larger corporation may be a matter of particular interest. There is some evidence that independently owned business firms devote more resources to human services than do organizations which are owned by larger firms. It may well be that corporate pressure on operating units to deliver profits reduces the social initiative which those operating units can take. Since it is likely that the policies and programs which operating units would initiate on their own will tend to be related to the long-run welfare of their particular businesses (however imprecisely), it may be that the divisionalized corporate structure bears adversely on the long-term welfare of its components—at least in this particular way. On the other hand, there may be offsetting factors, such as the availability of corporate resources of money and expertise. Both the processes at work, and their relative impacts on responsiveness, are worthy objects of study. Because of the fact that there may be offsetting factors, some form of quantitative approach such as a survey may be an appropriate means for determining which dominates the other.

A policy or program initiated within an operating unit may produce a

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different learning process than one initiated corporate-wide. Because the head of an operating unit has direct control over operating personnel he can initiate and terminate actions quite freely, and, since the lines of communication are short, he has a better chance to "learn by doing" than higher level officers do. He can also alter policy as a result of this experience. The significance of this difference will become clearer when I discuss the effect of organizational structure on implementation of policies initiated on the corporate level and implemented on the operating level. Other research questions relevant to the implementation of policies and programs initiated and executed at the operating level will be covered in the section which follows.

Initiation at the Corporate Level and Execution at the Operating Level

Policies and programs initiated at the corporate level and executed at the operating level are both most characteristic and most complex to implement. The major categories of issues that confront the business firm today—pollution, urban and minority affairs, occupational health and safety, product quality and safety, consumer relations, and good community relations—are generally corporate-wide in their significance, or at a minimum are of importance to more than one division in large corporations. They are also matters for which top corporate officers feel responsibility. However, they must all be executed by the functional personnel of the operating units, by engineering, production, marketing, personnel, and purchasing, under the direct control of lower-echelon general managers.

Structural Difficulties: The difficulty of implementing policies such as these has been pointed out a number of times.⁶ It lies in the circumstance that the overwhelming majority of large American firms are organized according to a product/market divisionalized structure. The reason for this structure is the multiplicity of businesses in which such corporations are involved. Because of the diversity of markets and technologies involved, it is impossible for corporate officers to exercise the judgments required to run such a variety of businesses. Accordingly, the heads of the various "businesses" (a business may be a "department" of a "division", which is in turn a member of a "group" below the corporate level) are expected to exercise considerable autonomy, and generally are held responsible only for demonstrating an adequate financial performance.

Corporate efforts to enforce new policies or programs in such a situation run up against three obstacles: (1) they require operating managers to do something to which they are not accustomed; (2) they violate the autonomy which such managers have come to regard as their right; (3) they appear to prejudice the financial performance of the businesses, and

therefore threaten the manager's immediate bonus as well as his track record for promotion. In addition to these obstacles, corporate headquarters is handicapped by the lack of an information system by which to assess and monitor the performance of operating units on matters relating to new policies.

Under these circumstances, the institutionalization of a new policy is a long and complex process. Ackerman has identified three stages through which this process goes. Stage I is that at which the chief executive officer becomes committed and communicates this commitment to the organization. This produces little or no organizational change. At Stage II a staff specialist is appointed. The specialist defines the problem (studies relevant laws, assesses expectations, and so on), identifies what needs to be done, formulates an explicit statement of policy (this *may* have been done earlier), and develops a rudimentary information system. Despite the activity of the staff specialist, there is likely to be little effective change of behavior at the operating level during this phase.

Stage III is one of institutionalization. Operating managers build the implementation of the policy into their business plans. A budget is allocated, objectives are set, personnel are trained when necessary, an ongoing information system is established and perhaps supplemented by a system of internal auditors, proper administrative procedures are designed and implemented, and performance on the objectives of the policy is built into the evaluation of executives.

In effect, the successful implementation of a corporate social policy (and it may be true for any corporate-wide policy) in a divisionalized firm requires the revision of the firm's system of reward and control. And it seems plausible to us that as policies become thoroughly institutionalized the control and reward systems required to establish them would be likely to atrophy when the changed behavior becomes "standard practice." (The historical look at the United States Steel Company previously mentioned supported this.)

IMPLEMENTATION RESEARCH

Research already done at Harvard and elsewhere gives us at least a partial glimpse at virtually every phase of the implementation of corporate-wide policies in divisionalized firms. But there remains much research to be done. I have tried various schematics for presenting the research that seems worth doing, but even a very elaborate one does not display all of these opportunities. A major difficulty lies in the fact that there are several equally attractive bases on which they might be organized.

Implementation of Specific Policies

To begin with, as of now there appears to be no adequate road map of the full range of administrative problems and tasks associated with the implementation of policy on any one of the existing active social issues to which corporations are attempting to respond. Nor is there a sound knowledge basis for the execution of the various activities within each stage level. It would appear, for example, that it is highly desirable to have operating line personnel involved in the formulation of detailed policies and in the setting of goals. Yet, some firms are not following this route. The execution of a first cut "social audit," which may cover only a few policy issues, seems a necessary step in moving toward institutionalization, yet it regularly encounters delays due to organizational resistance. The types of information systems required for monitoring various policy areas present different technical and organizational problems. We know little about this. Efforts to change systems of executive evaluation seem confined to a few issues; such efforts are also few in number, and no one knows how they will work out.

It is necessary to expand our knowledge of the implementation of policy in each of the current areas, to study the problems of specific subphases, and to do it on a comparative basis. Comparisons involve both the handling of one social issue with that of another, and the handling of social issues with that of regular business issues on which corporations are institutionalizing policies throughout the firm. Intermediate issues, such as consumer programs and community relations, which may have an immediate tangible business payoff in many instances, should be of particular interest since in some instances they will be seen as "social," in some "business," and in some a mixture. Furthermore, in all instances attention should be paid to the extent and ways in which a given issue may alternately be seen as a "social" and a "business" one. There is no issue on the present social agenda that cannot and has not been seen in both contexts.

The Implementation Role

The implementation of corporate-wide policies demands certain activities which at present do not seem to fit within any appropriate role, either from their performance or, to the extent the specific activities are the job of others, for their coordination. In the past several years, corporate staff functions with such labels as public affairs, community affairs, urban affairs, or even public relations are turning their attention inward for the purpose of bringing about organizational change. On the whole they lack either the legitimacy or the competence for this task. They meet resistance from other staff and from line operators and they must learn

new skills. One must assume that a new staff role may be evolving; however, the evolution of this role requires continued study.

The Importance of Structure

The business context deserves a good deal of attention. At a first glance it would appear that the structure of divisionalized firms reveals all of the qualitative manifestations that I have spelled out. Yet, the institutionalization of new policies in firms which are organized along functional rather than divisional lines does not seem to proceed more rapidly [11]. However, the process itself is in certain respects qualitatively different. In brief, the learning process in the functionally organized firm seems to be like that which was suggested for policies initiated and implemented at the operating level of a product/market divisionalized firm.

Responsiveness and Profitability

The relationship of profitability to responsiveness needs more attention. A few years ago this issue was seen as simply one of the availability of monetary resources—"If you are rich you can afford to be responsible." There is, of course, a great deal of plausibility to the notion that a marginal firm in a marginal industry will have little interest in "frills." There are numerous press accounts of a capital starved steel industry trying to fend off pressures to comply with pollution abatement laws. However, this issue has not been pursued in any rigorous fashion. Furthermore, the resource scarcity of unprosperous firms is not likely to be limited to money. Executive time and attention are also scarce resources, and on some issues and in some situations may be more critical than monetary resources. Certainly research to date indicates strongly that the implementation of social policies is strongly affected by the amount of top executive attention these issues get.

Ackerman [2] adds an interesting variation to this theme. He suggests that the crucial variable may not be profitability *per se*, but the rate at which the firm is expanding. Invoking the concept of the economy of incentives within the firm, he suggests that opportunities for promotion are a function of the rate of expansion of the firm, and that a chief executive who has many promotional opportunities to dangle in front of his subordinates is likely to get their attention when he favors a change in their behavior.

One more variation is also plausible. This one stresses executive time and attention as well as managerial skill as possible crucial variables. The argument is that an executive group that can afford to devote considerable energy to managing organizational innovations is likely to be one that has its regular business affairs well under control. This argument can be ex-

tended by saying that if the executive group is skillful at handling the implementation of new policies it is also likely to be adept at handling routine business, which presumably would be less demanding. According to this argument, a responsive firm should be prosperous, but it does not follow that a prosperous firm would be responsive.

Since all of the above hypotheses about the relationship of business profitability to business responsiveness are plausible, chances are that under some circumstances each is likely to manifest itself in varying degrees under some circumstances. While no one piece of research is likely to establish the entire set of contingent relationships which may manifest themselves, attention to these various possibilities across a wide variety of studies can bring the proper illumination to the relative roles of various types of resources in corporate responsiveness.

The Generality and Specificity of Responsiveness

I have casually referred to "responsiveness" and to some organizations as being more "responsive" than others as though responsiveness were a unitary phenomenon. There is a certain amount of legend to the effect that a business firm that is "responsible" on one issue will be so on all. This is, at best, imperfectly true. A firm that is excellent on consumer issues may be fair on employment and atrocious on pollution. To some extent such variations may be a function of the nature of the business, or such circumstances as the relative importance of a particular firm in a given community. It may also be a matter of historical accident, of a given executive's preoccupations, and so on.

Both generality and specificity of responsiveness are matters of importance; and there are certain obvious reasons for expecting variations in patterns of responsiveness. One would not expect an industrial goods manufacturer to foster a program of consumer education in a school system, though retailers such as Sears Roebuck have done so. One would expect a local utility to show more concern for its local community than for the nation at large. To the extent that it has a large fixed plant investment it will "logically" be interested in the economic and social vitality of the local community, and the general good will of whatever community it is beholden to for rate increases. A toy manufacturer will be interested in product safety, a steel manufacturer in water and air pollution, and so on. Any firm that feels it is both highly visible and dependent on public good will is likely to be concerned with vulnerability to "third sector" action. Other such "rational" relationships can be imagined.

A first item of research interest would be to establish the extent to which patterns of corporate responsiveness reflect such "rational" differentiations of response. The interesting findings would be those that did

not fit the pattern. For example, a company's structure might inhibit a response that would otherwise seem "rational." Thus, a nationwide utility or retailer might have a great deal more trouble mounting an effective community relations program than would a local utility or retailer. Or, one might look for a differential rate of implementation of policies which had more and less direct relevance to the business, not necessarily because top management was more enthusiastic about policies of more direct relevance—though this might well be so—but because operating managers were more convinced of their legitimacy. One ought also to look to the extent that a pattern of selective responsiveness is a matter of conscious overall business strategy. A best guess is that at this time such an overall deliberate strategy would be rare.

Learning Responsiveness

The notions of "selective" responsiveness and "general" responsiveness are not incompatible as such, if the selectivity is in fact strategically based. If the corporation is undergoing a transformation to a more adaptive organizational entity, then it should be acquiring general skills for selecting and implementing responses. From what we have seen, if this is taking place it is happening only occasionally and imperfectly. One would expect some skills for implementing new policies to be rather general ones which would cut across regular business and "social" issues. Yet, one finds a corporation which has within the last few years established corporate-wide policies on computer usage and on purchasing, and it is only by chance that it finds out that the same organizational procedures would appear to be applicable in the area of equal employment opportunity. This may be true in other policy areas also, but the connection had not yet been made.

While many firms view responsiveness as a general phenomenon at the commitment phase ("How do we decide what we should be doing?"), few, if any, see it as such at the implementation phase. Yet, since the implementation phase of the response process is generally the most complicated and prolonged, the acquisition of skill in implementation is a crucial aspect of the development of more responsive business firms. This learning may occur in one of two ways. It may happen within individual organizations, or it may happen via research which converts existing experience into the sort of "social knowledge" referred to previously. And, in turn, the social knowledge can be of two sorts. One would be substantive in the sense of codifying generalized aspects of the response process. The other would be process oriented and focus on how organizations can learn responsiveness from their own experience.

Research on organizational learning of responsiveness should in the

first instance focus on a full variety of corporate efforts to implement broad policies whether they be related to regular business concerns or social concerns. Methods may range from the establishment of staff positions, the appointment of committees, the manning of committees, the socialization of management, the formulation and communication of policies—and by what means and with what personnel—devising of information systems, changing evaluation systems and so on. Distinctions should be made among procedures which are highly general, (e.g., involved in the formulation of policy those who will have to implement it), those which are peculiarly suited to specific organizations, and those which are issue limited.

Special attention should be paid to instances in which learning does and does not occur, both across issues and across organizational units. For example, it is usual for some operating units to be more advanced in responsiveness, yet other units fail to learn or even resist learning from the advanced divisions. The nature and role of such advanced divisions should be studied. Various patterns may emerge. Such divisions may be sufficiently distinctive that their problems of responsiveness are qualitatively different from those of other divisions. A highly profitable division, using high technology and thus requiring highly educated personnel, may find responsiveness compatible and relatively easy in comparison with a division in different circumstances. Such a division may influence other divisions in a delayed and general fashion by supplying a disproportionate number of personnel who are promoted to corporate ranks.

Our experiences suggest, however, that failure to learn across operating units is less easily explicable than these comments suggest. We have seen instances which cannot be explained by differences in business circumstances. It is a phenomenon that requires understanding.

Summary

The implementation phase of corporate responsiveness has until recently been virtually ignored as a research topic. While it has received a fair amount of attention recently, it deserves considerable additional ongoing attention. Types of research which are required are:

1. Detailed road maps of the problems of implementing specific types of policies, such as pollution control, equal employment opportunity, occupational safety and health, community relations and such industry-specific programs as minority lending by banks. Such research should be oriented to the time dimension of implementation, focusing on the phases which the implementation process goes through, identifying the administrative problems characteristic of each phase, and the administrative options that are likely to succeed or fail. The thrust of this research is not at

the technical aspects of implementation, e.g., how to measure emissions or locate minority or female employees, but at the administrative task of ensuring that what should be done is in fact done.

2. Various roles are key to the implementation process. In particular, I have noted that an overall implementation role may be evolving that merits continued attention. Additionally, the role of the chief executive officer and any other personnel who may be especially relevant would merit research.

3. The various activities involved in the implementation process such as design of information systems, changes in executive evaluation, and the like, are themselves administratively sufficiently complicated to warrant separate research attention.

4. A basic premise of this agenda is that beyond reacting to specific issues the business corporation may be becoming more generally responsive. If this is true, then it ought to be developing a general capability for implementing new policies as they come along. If this learning process is taking place spontaneously, that process should be a focus of attention. Additionally, research should be directed at those aspects of successful implementation that can be codified and transmitted so as to facilitate the learning of responsiveness in the corporate world.

FOOTNOTES

*This is a portion of a larger manuscript entitled "An Agenda for Research and Development on Corporate Responsiveness," completed in 1974. Professor Bauer was at work on a review of subsequent research results and modifications of his initial research design in the light of experience and more recent developments at the time of his death. An edited version of the research instrument used by Professor Bauer and his colleagues appears as Appendix A to this volume.

1. For a fuller exposition of my view of such processes see [8, Ch.1].

2. This general topic has been the subject of considerable research. A researcher starting to work in this area should consult [4].

3. For well-conceptualized studies of regular business "decisions" see [5] & [9].

4. My continued reference to "top management" requires clarification. In complex business organizations, more than one level of management is often in a position to make commitments on matters of social concern. A division head or even a department manager may take initiative on his or her own. To the extent that he commands the relevant resources and has jurisdiction over a meaningful organizational segment, he or she is, for our purposes and in this context, "top management."

5. The uninitiated reader may be surprised at the notion that "underlings" can constrain the boss's spending. In fact the funds available at the corporate level may be quite limited. A public broadcasting executive complained to me that it was very difficult to get support from divisionalized firms: "The money is all down in the divisions and when headquarters asks them to support a public T.V. program they couldn't care less."

6. For an especially pertinent exposition see [1] & [2].

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AUDITING CORPORATE SOCIAL PERFORMANCE: THE ANATOMY OF A SOCIAL RESEARCH PROJECT

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Imagine that you were asked to undertake an inquiry into a topic (a) that is in itself only vaguely defined, (b) where the best prevailing opinion is that the necessary research methodology is lacking, (c) where a consensus about the goals of such research and the criteria for judging its worthwhileness doesn't exist among researchers, and (d) where the clients and potential beneficiaries of such an inquiry are, at best, highly suspicious of the motives and skills of the researchers and, at worst, dead set against the entire enterprise. If your imagination is sufficiently lively and your memory sufficiently long, then you will readily recognize that just such a situation confronted those scholars who, in the early 1970s, proposed to conduct research on the social adult.

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Although many spoke about social auditing, no one was *quite* certain just what it was. The indeterminate, obscure nature of social auditing was captured perfectly in the titles of two articles published at the time: John Corson's "The Great What-Is-It: The 'Social Audit' " (7) and Raymond Bauer and Dan Fenn's "What *Is* a Corporate Social Audit?" (5). On the other hand, there was broad agreement expressed in paper after paper and at conference upon conference that the methodological obstacles to social auditing were so formidable that one might as well give up before getting in too deeply. Great intellectual energies were being expended deploring the absence of social criteria by which to judge or audit corporate performance. All the while, the beleaguered corporate managers who were feeling the slings and arrows of an often hostile public were not so certain that social auditing would accomplish any more than possibly to expose their companies to even greater criticism from external sources.

Hence, the climate for undertaking this kind of research was decidedly not encouraging when, in late 1972, the Social Audit Research Group (SARG) at the University of Pittsburgh began its work. Two years later, SARG completed the second of two social audits which were successfully conducted within a large industrial corporation. At the same time, the research effort had produced a highly useful methodology for guiding such research, had developed an implementation procedure for conducting both the research and the audits themselves, and had created a report format for social audits that proved to be pragmatically useful to management and helpful to those scholars (including some of us in SARG) who were wondering just what a social audit should look like (6).

The measure of success experienced by SARG is worth pondering, not for reasons of professional glorification but in order to try to identify the critical elements that in combination can lead to a positive experience in research on corporate social performance. These elements—one might even call them the preconditions for successful social performance research—will be found in some degree or another in similar research projects that have achieved a measure of professional acceptance. We are dealing here with the common and essential traits of social inquiry. Without them, little can be accomplished. With them, success may not be assured, but the odds rise considerably.

So let us examine the case of SARG for the purpose of delineating those methods, approaches, and procedures that proved to be instrumental in the group's successful research endeavor. In doing so, we shall need to go beyond the experiences of this particular group and to suggest a set of conditions that can be conducive to positive outcomes for all research on corporate social performance.

A retrospective view will be employed. The social and intellectual con-

texts were quite important conditioning factors, and they will be briefly reviewed. In addition to describing these general environmental conditions, it will be useful to identify some of the specific factors that were at work in the immediate work environment of SARG. These factors, although to some extent idiosyncratic, were nevertheless sufficiently general to warrant consideration. This retrospective review will then be followed by a summary of those critical elements that provided a positive outcome for the work of SARG and which, more than likely, must be operative in all research on corporate social performance that is to benefit both scholars and practitioners.

THE SOCIAL AUDIT: GENERAL INTEREST

1972 was The Year of the Social Audit. A spate of articles burst upon the scene, foretelling almost breathlessly the emergence of a new way of measuring and evaluating corporate performance (5, 7, 10, 13, 14, 16, 18, 19, 21, 23). Conferences and workshops where scholars and company representatives pondered the possibilities and pitfalls of social auditing were convened (17, 20, 22). Suddenly, it seemed as if the prospects had brightened for bringing a greater degree of rigor and accountability into the social responsibility debate.

The year 1972 was also one of considerable social ferment. By then, the annual meeting of many large corporations had become the focus for social protests. The criticism ranged widely, from concern over pollution to ecological damage to religious, racial, and sexual discrimination and on to such matters as consumer protection, the safety and health of employees, and doing business in South Africa (8).

These twin developments put a definite stamp upon social auditing. The focus was to be upon (a) a whole-corporation audit, (b) undertaken from an external viewpoint, (c) which usually proved to be critical of corporate actions. The entire corporation with all of its social impacts was to be audited and thus brought before the bar of public opinion. External critics of business seemed to be more interested in the social audit than anyone else for it promised to add an element of precision, objectivity, and scientific respectability to the rising tide of corporate criticism.

Simultaneously, the scholarly community was quick to point out that social auditing faced severe methodological problems. Criteria of social performance were either lacking or not agreed upon. Measurement techniques were yet to be perfected, and many important social factors were perhaps not capable of rigorous measurement. Social data were often not available. Common yardsticks of social performance, similar in

function and usefulness to money as used by accountants in their financial audits, were simply not present, nor did it appear that any would be forthcoming in the near future. True social benefits and costs could not be accurately computed. And even if rough estimates might be made of the social impacts of corporate actions, their relation to the company's mainstream functions and especially to its profits could not be made clear enough to form the basis for decision making or policy formulation.

Social auditing was thus made to appear from the beginning as a methodologically dubious technique which was nevertheless embraced with considerable enthusiasm by corporate critics who apparently intended to employ it in a punitive fashion against the worst offenders of the public interest.

Hence, infected from the outset with such deadly viruses as social faddism, methodological dubiety, and an overblown concept of its punitive potential, social auditing—within three years of its lusty birth—was said by one commentator to be suffering from a “terminal illness” and to be “near death” (15). Today, one searches the journals and business press in vain for reports on the social audit. Indeed, it seems to have all but vanished.

THE SOCIAL AUDIT: NARROWING THE FOCUS

In the initial rush of enthusiasm for the social audit, it was not at first apparent that few were actually trying to put social auditing into practice. Business representatives had good reason to hold back, as noted. Scholars, too, were somewhat awed by the methodological complexities.

At this point, two major concepts of the social audit were proposed. Clark Abt, a management consultant, developed an elaborate, accounting-based scheme that purported to state the social benefits and costs of an individual firm in dollar figures. To make his point clear, Abt applied the system to his own consulting firm beginning in 1971 (1,2). Here, at least in one case, theory was being converted into practice.

Raymond Bauer's approach to the social audit was much more loosely structured, less formal and quantitative in content, highly pragmatic in tone, and inclined to soft-pedal the several explosive social, political, and organizational issues underlying the very idea of social auditing. Bauer, drawing upon his long experience as an academic researcher and his many contacts with the business world, knew whereof he spoke. The key to social auditing's success was acceptance by the corporate community. That acceptance would turn on the ability of social audits to say something meaningful to corporate managers that would assist them in making

decisions in the social arena. The perspective of the social auditor would have to be an internal one, not external; supportive, not punitive; programmatic and partial, not encompassing all social impacts of the entire company. Never mind that true costs could not be computed; managers don't care. Neither do they insist that social impacts be converted into dollar figures and integrated with financial statements. What the social audit *might* be made to do is to provide managers with systematically developed information about how their firms are presently managing their social programs. Such information might in turn prove to be useful in reviewing their social practices and policies (3, 4, 5).

What Bauer and his research associates in the Harvard Business School accomplished—to their everlasting credit—was to turn away from the popularized version of social auditing that had evolved in 1972. In its place, they proposed to develop a pragmatically workable procedure for actually conducting social audits within business corporations. The purpose, as noted, was to provide practicing managers with better information about their company's social impacts. This pragmatic attitude was best expressed in the felicitous phrase, "getting on the learning curve," as used by Bauer in addressing a conference on corporate social policy in late 1972 (3). It was obvious that there was much to be learned and that such learning would be most likely to occur by doing and not simply by talking.

The stage was thus set for a managerial approach to social auditing. What was needed was a demonstration project, one that would take the skeletal outline of Bauer's "social process audit" and flesh it out with the reality of one or more social audits conducted within an actual company.

SOCIAL AUDITING AT PITT

In the Fall of 1972, Pitt's Graduate School of Business received a modest grant from the General Electric Foundation for research on corporate social policy. Although a general purpose grant, it was accepted with an understanding that it would be used to accomplish something tangible, as contrasted with the voluminous flow of rhetoric that typified the social responsibility scene in 1972.¹ Take note of this point for we shall return to it later. It proved to be one of the key elements in Pitt's research effort.

The General Electric grant, as all grants are wont to do, galvanized faculty and students into action and became a catalyst for generating a definite program of action. The catalyst acted upon two primary elements. One was the interests of a group of doctoral students who during the previous summer had been lobbying for the faculty to undertake one or

more activist-oriented studies of corporate social responsibility. Reflecting the spirit of the times, these students shared the views of General Electric Foundation officials that social responsibility rhetoric should be replaced with some action, preferably some field studies. Simultaneously, William Frederick of the School's faculty had been searching for a way to measure a company's social responsibility in order to test J. K. Galbraith's contention that corporate social responsibility is correlated positively with company size and growth rates (12).

These three factors—a grant with pragmatic strings attached, an activist group of students, and a desire to develop a way of measuring social responsibility—laid the groundwork for the kind of research that would prove to be compatible with the Bauer approach to social auditing.

A fourth factor also pushed the research effort in pragmatic directions and away from the somewhat grandiose, broadscale notion of a social audit that would attempt to assess a corporation's entire array of social impacts. When confronted with the prospect of undertaking the latter task, one quickly realizes how extremely difficult, complex, and time-consuming it can be. Practical limitations simply assert themselves forcefully. Although some faculty members and students within the group surrendered only reluctantly their ideologically tinged desires to measure the corporation's overall social impacts, the pragmatic view prevailed, thanks largely to the persuasiveness and hard-nosed common sense of David Blake of the School's faculty. As we were to discover—and as Bauer already suspected—there would be no social auditing and no research on social auditing unless one were to adopt such a posture.

By the end of 1972, the Social Audit Research Group had been formed, consisting originally of faculty and students interested in business and society, marketing, accounting, and behavioral science. In time, the group's members would be scaled down to three faculty members and five doctoral students, all primarily interested in business and society.²

Before going on to identify those traits that proved to be indispensable to the research efforts of SARG, a word of explanation is needed to clarify the relationship of SARG to the Bauer group at Harvard. In spite of the similar pragmatic orientation of the two groups, SARG preferred to work independently of Bauer and his associates and did so for over a year. Nonetheless, Bauer's ideas suffused the SARG enterprise, and the Pitt group drew inspiration from Bauer and Fenn's *The Corporate Social Audit* (4) and "What Is a Corporate Social Audit?" (5) and, of course, adopted their term, "social process audit." Retrospectively, it is evident that Bauer's continuing interest in the SARG project, which he expressed from time to time, was an important part of a larger supportive professional environment that sustained and bolstered the research.

THE CRITICAL ELEMENTS OF SOCIAL RESEARCH

Having described the intellectual and social climate of the period which both nourished and discouraged the idea of the social audit, it is time now to delineate that set of critical elements that characterized the work of SARG and contributed to its research success. They fall into a number of categories: some were related to the company where the research was done, some were related to SARG and its work routines, others were purely personal, and still others had to do with the general professional environment in which such research is normally carried out.

The Pragmatic Imperative We have already mentioned some important factors. The strong activist interest and continuing *esprit de corps* of the involved students contributed importantly to a positive outcome. An ongoing research effort that was compatible with the core idea of social auditing had laid some necessary conceptual groundwork. Of critical importance was the challenge grant from the General Electric Foundation to accomplish something more tangible than simply adding more rhetoric to the journals. And the pragmatic managerial approach to social auditing that came to prevail within SARG also pushed the research effort away from ideological shoals and toward a workable outcome.

These four factors, taken together, might well be called the pragmatic imperative. They represented a fortuitous, wholly unplanned convergence of factors that helped to produce a research project that would achieve the central goals of both academic inquiry and managerial practice. Those who plan to undertake research on other aspects of corporate social performance may wish to ponder the wisdom of deliberately building such traits into their projects and work plans. A pragmatic, action-oriented approach to research is, after all, wholly compatible with one of the basic missions of a professional school of management, namely, to provide the management professions with insights into the nature of their work in the hope that that work might be improved. If, at the same time, concept and theory building can be an outcome of such pragmatic research, then the academic community will also have gained from the effort.

Organization, Work Routines, and Research Attitudes From the beginning, SARG established definite work procedures that contributed to the success of the project. Periodic working sessions which often took the form of academic-type seminars were held every two weeks. Students and faculty members were asked to prepare and deliver working notes and papers on various questions and issues that had to be worked out. In this

manner, the group hammered out its basic conceptual approach to the social audit, the methodological framework to guide the research, an implementation procedure for undertaking social audits within large-scale business corporations, and a report format that would be suitable for classifying and presenting the final audit results.³ In the same way, interview schedules, questionnaires, and methods of accessing company files were laboriously subjected to the discipline of this group process. It was also felt important to have in hand a succinct description of just what a social process audit was, what kinds of information it would elicit, and what would be required of any cooperating company. Working out such a description not only provided SARG with a persuasive document for prospective corporate clients but also assisted members of the group to understand more fully for themselves the nature of their work.

It should be stressed that all of this work was carried out in an atmosphere of considerable uncertainty. SARG had precious few established guidelines by which to work. Social auditing at that time was being practiced by almost no one. Those few companies bold enough to experiment with the new technique tended to be quite secretive about their methods and results. SARG could not locate other scholars active in this type of research with whom to share ideas during the critical early period when it was attempting to work out the conceptual foundations for the social process audit. Thus, while the excitement of pioneering a new research frontier was stimulating, there were days when we would gladly have settled for a bit of confirmation from practitioners or other researchers that we were on the right track.

Social research in general can probably benefit from the use of similarly organized group disciplines for guiding and even forcing the work to be done. Where research guidelines are uncertain or where the topic being studied is particularly complex, it is wise to tap as many different viewpoints as possible. A mixture of disciplines and fields can provide a richness of perspective not obtainable when scholars work in isolation. The built-in expectations of high-level performance from each member of the group that can become a part of a SARG-like enterprise can result in greater research productivity than would be experienced in the absence of this group process. The reputed creativity of the contemplative scholar working alone in a garret is worth questioning, at least for many of the social issues that now demand a concentrated, interdisciplinary research effort.

Two additional traits related to the internal workings of SARG proved to be important. Early on, the group developed a high-level sensitivity to the organizational, attitudinal, and ideological concerns and fears that are inherently associated with social auditing. As noted previously, there was

a sense in which social auditing was popularly thought to be a new way to flog business for its social sins. The members of SARG spent considerable time pondering such problems and realized that neither social auditing nor research on social auditing would be possible if these kinds of troubling issues and suspicions were allowed to prevail in the minds of cooperating companies (11). Hence, efforts were made at every step to reassure managers and employees that the basic purpose of the social process audit was to provide internal management with information useful for program review and decision making and that SARG had no interest in exposing companies to public criticism.

Some such reassurance technique is absolutely essential if social researchers are to secure the cooperation of corporate managers. Trust and confidence must prevail on both sides. Whether this situation tends to limit social research to trivial or noncontroversial inquiry is a question worth thinking about. In the meantime, there is no substitute for the establishment of a bond of trust between the social researcher and the corporate community if research into corporate social performance is to proceed at all. Researchers who ignore this requirement of political and ideological sensitivity jeopardize not just their own work but the entire social research enterprise.

Still another attitude that sustained the work of SARG was a willingness to "muddle through" when theoretical and conceptual precepts seemed lacking or dubious. The popular opinion among serious scholars at the time was that social auditing was methodologically unfeasible. Having made a painstaking study of these problems, SARG agreed wholeheartedly with the critics—and then proceeded anyway! It was experimentalism at its best. If community consensus on social goals was lacking, then rely on stated company goals. If social costs could not be stated precisely, compute the economic costs of social programs. If important behavioral and attitudinal factors could not be stated quantitatively, then make a carefully written analysis of their significance and flag it as an important bit of qualitative information. If the social audit produced both quantitative and qualitative data, don't try to reconcile the two but simply include both types of information in the final report.

This willingness to disregard and push on beyond some of the much-discussed obstacles to social auditing, while academically scandalous and certainly no substitute for a careful consideration of legitimate methodological matters, nonetheless enabled SARG to test the issues and to evolve some social auditing procedures that appeared to be both workable and acceptable. Other social researchers working in other areas might profit similarly from this "muddle through" attitude. After all, the history of invention and discovery records over and over again how out-

siders who "don't know the rules" are able to make breakthroughs that elude those who are accustomed to the settled routines of a particular field.

A Supportive Professional Environment All social research occurs within a context made up of ongoing, related ideas; cooperating and competing researchers; and, often, a generalized awareness within the intellectual community of the actual or potential significance of the research being conducted. This professional environment of research can be an important determinant of research outcomes. If the environment is positive and encouraging, if cooperation outruns competition, and if a confluence of related ideas can be created and funnelled into the work of any given group of researchers, then one can expect their investigations to bear fruit.

In the case of SARG, just such a supportive environment was present, and it played a key role. Two seminars—one at Pitt and one at Carnegie Mellon University—functioned as a source of ideas, as a testing ground for the concepts and procedures being evolved by SARG members, and as a psychological reassurance that SARG was engaged in a worthwhile research activity. The Pitt seminar on the theory of social auditing was organized by Jacob Birnberg of the School's faculty and was offered during the critical months following the organization and initial work of SARG. Together with the regular workshop meetings of SARG, this seminar provided additional organizational discipline and contributed to the *esprit de corps* within the research group. At CMU, Dean William Cooper of the School of Urban and Public Affairs had for a number of years organized a year-long seminar for faculty and doctoral students on various aspects of accounting, and in 1972–73 he devoted the seminar to social accounting and social measurement. Members of SARG were invited to participate and did so, thus gaining further insights and finding additional testing grounds for new ideas.

Beyond the immediate setting, SARG found encouragement and support from such authoritative and knowledgeable persons as Arthur Toan, who, at the time, was head of an AICPA Committee on Social Measurement that was working to bring out a report on the subject; Raymond Bauer and Neil Churchill of the Harvard Business School, both of whom were tilling different but related parts of the field; Ian Wilson, an environmentalist on the staff of the General Electric Company who had a lively interest in social auditing and social forecasting and who very much wanted the SARG project to succeed; and the organizers and participants of various conferences and workshops on the social audit held during 1972 and 1973. These persons, projects, and meetings all tended to confirm the significance of SARG's work and often provided that confluence of re-

lated ideas and techniques which buttressed the general directions of the research.

In the arena of social research, where complexity and controversy are often powerful obstacles to inquiry, a supportive professional environment can often make the difference between positive and negative research outcomes. The experience of SARG confirms that relationship, suggesting the critical importance of the general context in which inquiry occurs.

Business Attitudes Toward the Social Audit The original goal of SARG was to find three large industrial firms willing to cooperate in social audit research so that intercompany comparisons could be made of the types of problems and procedures involved in social auditing. It soon became evident that finding those three companies would not be a simple matter. Of the five companies contacted, only one agreed to cooperate. One of the other four had already begun an in-house social audit and had decided as a matter of policy not to allow outsiders to participate. Another firm wanted "to study" our proposition, while the other two companies simply weren't interested in such matters. As things turned out, the original goal proved to be too ambitious, and SARG found that its hands were more than full in working with a single company.

The entrée to this corporation was based almost entirely on the personal relationship of one of the SARG faculty members with a key executive of the company. A bond of friendship, mutual admiration, and shared values established the necessary trust and confidence that opened the doors for SARG. Without this felicitous introduction, it is highly probable that this particular company would have responded negatively, as did the other four. Social researchers, take heed. How slender is the thread by which research is made possible. In spite of all the prevailing publicity about the social audit, business corporations evinced little active interest in it (for reasons noted earlier), and our sample, at least, did not respond favorably to the overtures of academic researchers to experiment with its possibilities.⁴

Once inside the company, however, the wholehearted acceptance of SARG was based almost entirely on the compatibility of SARG's pragmatic research philosophy and the company's perceived needs and interests. Specifically, the company was concerned about the need to meet the newly enacted standards of the Occupational Safety and Health Act, and they requested a social audit of the company's loss prevention program. Still another executive thought it would be useful to undertake an audit of one of the company's contributions programs which had originated during the late 1960s in the wake of urban disturbances in Pittsburgh. This particular company officer was known to have a strong personal commitment

to the idea of social responsibility, and his staff shared that philosophy. An audit would constitute no threat inasmuch as the program was relatively small, and it might help to bolster the program's image at a time when it was subject to some economic pressure from the financial front office. The possibility of auditing the company's affirmative action program was also suggested by management, but SARG declined, wisely as it turned out, on grounds of lack of experience and limited resources.

Once it was agreed that two audits—one of the safety program and one of the contributions program—would be undertaken, nothing but spirited cooperation greeted the SARG staff. Files and records were opened, managers and staff members were available for interviews, all questions were freely answered and helpful suggestions were offered. Part of this organizational openness was undoubtedly due to the favorable attitudes of the two key executives. But the most important factor at work to produce a cooperative atmosphere was the knowledge within the company that SARG intended to produce a report that would have a tangible value to the organization's decision makers. The social audits were to be an internal affair, aimed at providing systematically developed information about how well these two programs were being managed. Additionally, if the research was successful, it held out the hope of creating methods that the company could use to conduct its own continuing social audits of these and other programs in the future. All that SARG asked in return was the freedom to develop its methods and techniques without company interference and to disseminate its findings to the academic community upon completion of the study. Hence, there was a convergence and congruity of managerial need and academic inquiry.

The entire question of general business attitudes toward social research is one that needs much additional thought and perhaps a good deal of dialogue between business representatives and members of the research community. While few would dispute the general need for more information about the various ways in which business and the social environment interact with one another, one often finds the gap to be quite large between the work or the proposed work of researchers and the willingness of business to cooperate with such research endeavors. Both parties are at fault. Academic researchers often study matters remote from the needs of practicing managers, while the latter sometimes fail to grasp the need for basic research whose practical payoff may come only much later. There is also the thornier question of research on the business-society relationship that may reveal negative or questionable practices and outcomes. Few persons in any profession welcome such investigations.

The experience of SARG suggests very clearly that business managers can become vitally interested in, and supportive of, academic research if

it is made relevant to their work and concerns as managers. While not all research questions can, or should be, formulated within such close managerial constraints, many that fall within the orbit of research on the social environment can be. The largest measure of success is likely to be enjoyed by those research projects whose design encompasses managerial need as well as the frontiers of academic inquiry.

A HIERARCHY OF SOCIAL RESEARCH REQUIREMENTS

If research on the social environment of business is to proceed with any prospect of success, certain traits or preconditions will have to exist. Most of these factors were present in the social auditing research undertaken by SARG. It is suggested here that these critical factors constitute a hierarchy of requirements for social research on business.

First and foremost, as noted previously, is the need to define research so that its results will be pragmatically useful to organizational decision makers and policy formulators. Every research project could benefit from having a Donald Watson standing at its elbow insisting that something tangible and useful be done.⁵

A supportive professional environment is a second requirement for achieving a positive research outcome. Researchers, for both psychological and substantive reasons, need to have external confirmation from a variety of legitimate sources that their work is considered to be professionally significant.

An established work discipline, an appropriate organizational vehicle for accomplishing the work, and a grasp of the organizational subtleties associated with social research are another cluster of requirements that help determine whether any given research project will achieve its purposes.

Beyond these three primary factors are two others less tangible and less subject to control but nevertheless of some importance. An experimental frame of mind capable of tolerating intellectual ambiguity and dissonance and willing to step beyond the rules of the game can be a dynamic element contributing to new breakthroughs in established patterns of thought. "Muddling through" has its advantages.

The factor in the SARG experience that gives one considerable pause in reflecting on the difference between success and failure is the purely personal and idiosyncratic (but also the totally determinative) element of friendship that paved the way for SARG's access to the cooperating company. Had this friendship not existed, would SARG have been able to conduct any research at all? The answer is not readily apparent, but the

circumstances at the time suggest the chilling possibility that nothing at all could have been accomplished. If this episode is not entirely atypical, does it tell us that research on corporate social performance is generally met with corporate indifference and that research progress turns on the personal whims and idiosyncratic relationships that prevail among scholars and practitioners? Perhaps general research prospects are not so grim as suggested by this question, but there is some evidence that social research on business is not the firmly established and socially institutionalized enterprise that one might ideally wish it to be; it often does indeed depend upon such fragile factors as personal friendships and casual professional relationships.

Finally, or perhaps one should say basically, there is research funding. The SARG research could not have been accomplished without a series of annual grants from the General Electric Foundation. Is one therefore justified in ranking financial support as the last requirement for social research on business? Yes, in the sense that funding is a necessary but not sufficient condition for the pursuit of social research, whereas all other elements in the hierarchy, including perhaps even the purely personal relationships between researchers and managers, constitute the irreducible core requisites of academic research.

The anatomy of social research on business is a complex one. Ferreting out those factors that spell success or failure is important for scholars, managers, and funding agencies, for all have something to gain from such knowledge. As the Dodo in *Alice in Wonderland* said when asked who had won the Caucus-race, "*Everybody* has won, and *all* must have prizes."

FOOTNOTES

1. Donald Watson, an official of the Foundation, was the primary advocate of a results-oriented research project.

2. The faculty members were David Blake, William Frederick, and Mildred Myers. Students were Rogene Buchholz, Robert Hogner, John Webster, Rich Wokutch, and Donald Wygal.

3. A full description of each of these concepts can be found in (6).

4. Several months after his company had refused to cooperate with SARG, an executive wrote to the author stating his belief that social auditing was a "basically dishonest" undertaking and that it should be eschewed by business.

5. The seeming demise of the social audit can be explained largely by the failure of many social audit techniques to meet this criterion of managerial usefulness. While the early, popular version of a "bottom-line" social audit has justifiably faded from the scene, the more limited and useful social audits dealing with such matters as employment discrimination, environmental pollution, and employee safety and health are alive and well in many corporations (Cf. 15). The social audit will survive—and only deserves to survive—if it aids organizational decision making and policy formulation in both the private and public sectors.

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MANAGERIAL MOTIVATION AND IDEOLOGY

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INTRODUCTION

The current controversy over recombinant DNA research, wherein state legislators, scientists, federal officials, and community leaders are debating the biological and ethical questions inherent in efforts to combine the genes of different organisms once again reaffirms the conclusion that scientific investigations are not value free. This conclusion, held intermittently with varying degrees of conviction by impartial observers at least since Galileo's experiments, has always been controversial, largely because most of these observers have concentrated on the propriety of a researcher's value judgments entering into the methodology employed

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and/or the results obtained.¹ Purists claim that research should be value free; skeptics insist that this is impossible.

In a broader sense, research is never value free: it is always valued. Research is a process in search of a product. This product may be an idea, a paper, a formula, an object, a system, or it might be some combination of all or any of these tangible and intangible items. Just as in the case of any other product, then, research outcomes have value. Frequently this value—as anyone who has perused the academic journals knows—accrues largely to the researcher himself, who may receive ego satisfaction, or perhaps even an increased salary, from the printed results of his research. Sometimes, however, the research product is valued by others. These others may be few in number (as indicated, perhaps, by one or two citations on an index), or by hundreds, thousands, or even millions of persons. Sometimes, too, it may take a long time before research output reaches its full value. Inventions are not always accepted immediately; excellent papers are occasionally published in obscure journals; experimental results are at times too *avant-garde*, so that, for these and other reasons, there may be a long time lag between the research production process and final valuation. Whatever the circumstance, however, it is in this “market” sense that research is given value. One can conceive of all research products arrayed neatly on a scale ranging from almost zero value upwards: It could further be speculated cynically that such an array would probably be skewed toward the lower extremes of the scale, most likely with kurtosis at a modal point only slightly higher than zero.

The concept of valued research raises questions about what or who imparts value to research. Economists generally agree that value is present when a product has utility for someone or, as Alchian and Allen so clearly express it, “. . . [when] having some of an entity is preferred to having none of it. . . .”² Much research has little value because it has minimal utility, and for only a few persons. However, because research, especially in academia, is often far removed from some final consumer product, belief, or service, it may be of utility to large numbers of persons who are completely ignorant of it. Some of the modern research in agriculture is of this nature. In many cases the market places a value on such research in the form of higher prices for larger strawberries or bigger and redder tomatoes. In some instances, however, market surrogates are used to determine the utility of research. For example, much academic research in the social sciences is first evaluated by the researcher’s peers—by journal editors or referees, and/or by colleagues who review the quality of the research, perhaps for advancement or retention purposes. These evaluators typically use such criteria as originality, reliability, and significance to appraise the value of research. Thus, research that lacks originality, as one might suspect, has a utility that is diminished by

the fact that it is the n th reiteration of some earlier study. In fact, the negative slope of the utility curve for replicated (or slightly altered) research products is probably quite steep. Finally, while the formal authority given to research-evaluators may be directly conveyed to them by an organization or association, implicitly their decisions about the value of research are (or will be, it is hoped) sanctioned by society or by some group therein. Ultimately, then, it is society—in large or small part—that places a value on research outcomes, and the most significant research is that which possesses a high degree of utility for a large segment of society.

All of the above is prelude to the twin topics of this chapter, managerial motivation and ideology, and, while it may not seem so, is relevant prelude. Much of what a society, or some large class or group in society, values is determined by the ideology it adheres to; and if a research product ultimately is valued by some segment of society, this valuation is typically colored by ideology. Ideology causes great difficulties for scholars who conduct research on administration and organizations because the values held by academic peers differ so greatly from those held by practicing managers. Research that may be valued highly by colleagues may rarely be as highly valued by business administrators, and vice versa. Because most academic research is conducted for the academic market place it reflects the values inherent in the academic ideology, and only in rare instances does it have any great utility for managers. Since, therefore, it is claimed that ideology colors research values, the following section will explore the nature of managerial ideology at length before proceeding to matters of managerial motivation.

MANAGERIAL IDEOLOGY

The Nature of Ideology

Although the statistical evidence is slight, most scholars agree that business managers in the United States hold certain beliefs in common. These beliefs may have become frayed, tattered, and altered at their periphery over the past two hundred years, but their central core has seemingly remained remarkably stable. Furthermore, this core exudes certain attributes which causes it to conform very closely to Monsen's definition of ideology, which is:

. . . any set of ideas characteristic of a group, class, or nation that relates certain of their attributes to some more commonly esteemed values in such a way as to bestow honorific status upon them and their institutions and provide the basis for invidious comparisons against their competitors.³

The core of managerial beliefs meets the tests for an ideology advanced by Monsen.⁴ Among these criteria are the following: (1) *An ideology must fill adequately the needs of the group.* The American business ideology meets this requirement simply because it is based upon two central assumptions: first, that the pursuit of self-interest within the law is commendable; and second, that organizations are, or should be, meritocratic. The first of these central beliefs permits business managers the freedom to be ambitious and avaricious without guilt. The second legitimizes both ambition and position. (2) *An ideology should be able to justify and rationalize group actions.* The managerial ideology also meets this requirement, for it emphasizes service to the public through the pursuit of self-interest in a competitive environment. Indeed, this is the wonderful part of the capitalistic credo, that men can serve their society by trying to maximize their own economic ends. (3) *In case of failure, an ideology should provide a scapegoat.* The managerial ideology does this in the aggregate by blaming other institutions—most notably government and labor—for interference with the market mechanism. (4) *In the event of success there should be some virtue to which it can be attributed.* The managerial ideology typically relies on such values as intelligence, hard work, diligence, and similar virtues to explain success. (5) *The ideology must be able to offer a frame in which to explain present conditions.* The managerial ideology is replete with all types of explanations for the present, both on the macro and micro level. (6) *The ideology must have some close relationship to reality.* While far from perfect, the American business dream does often work. Small firms do sometimes grow into large corporations. There is competition in many industries. Boys and girls from humble surroundings do, on occasion, rise to powerful managerial posts. (7) *The ideology must describe some ideal state toward which progress should be made.* In the American business ideology this state is likened to perfect competition with a minimum of governmental controls.

Is there a managerial ideology then? It would seem that some central core of widely held beliefs exists in the business community. These beliefs are held so strongly by so many managers, furthermore, that sporadic efforts have been made to propagandize the entire American society into accepting them. For better or worse, however, their acceptance has not been as complete as most businessmen would like, and there is considerable evidence that the managerial ideology is not attractive to many members of society. In fact, during the past twenty-five years public opinion polls have indicated that the American public has become increasingly distrustful of, and cynical toward, business. Thus, in the earliest known poll containing a national sample, conducted in 1950, only 10 percent of the population believed that the "bad effects" of big business "out-

weighed the good.”⁵ Virtually all the polls in the late 1970s indicate that from half to three-quarters of the public is mistrustful of business. Yankelovich reported in May 1976, for example, that confidence in business was held by only 19 percent of the population during “the past few years.”⁶ Yankelovich ascribes this result to a distrust by the public of the moral and ethical motives and practices of business managers.⁷ He observes that most Americans support the ideology of capitalism, and most believe that business is, for the most part, performing well in producing goods and services of acceptable quality, but they also believe that managers put their business interests before the public interests, and act unethically to forward the former. John Steiner, in an excellent paper, has enumerated in depth the causes of public cynicism and antipathy toward business during the past decade and has found, among other things, that children begin to develop cynical attitudes toward big business as early as the third grade.⁸ There is evidence, therefore, that the general public, in recent years at least, has not accepted fully the managerial ideology, and especially disapproves of what they perceive to be the managerial morality.

Threats to the American Managerial Ideology

Despite the antipathy of the public toward certain aspects of the managerial ideology, many businessmen continue to believe that this ideology can be sold like soap or other consumer goods, and that all that is needed is the proper advertising and public relations campaign. Thus, during the past year or two, individual corporations, associations of companies, and advertising councils have launched such campaigns to bring about more favorable public attitudes. Whether these efforts will be successful remains to be seen, but, as the “Free Enterprise” campaign of the late 1940s and early 1950s illustrates, it is difficult, if not impossible, to alter public attitudes toward business only with huge expenditures of advertising funds. Furthermore, while business is devoting its attention to this endeavor, it may neglect other threats to the managerial ideology. There is some evidence, for example, that this ideology is not entirely secure within the house of business itself. A recent survey of *Harvard Business Review* readers, most of whom were business managers, revealed that even this group was more cynical in 1976 about the ethical conduct of their peers than they were in 1960.⁹ In accordance with the tenets of ideology, however, 34 percent of those respondents who believed the ethical standards of managers were lower found that, for the most part, external factors were to blame, i.e., the scapegoat was outside the world of business. Thus, the factors causing lowered ethical managerial standards were:

Society's standards are lower; social decay; more permissive society; materialism and hedonism have grown; loss of church and home influence; less quality, more quantity desires.¹⁰

More dangerous, from an ideological perspective, than managerial cynicism about ethical standards has been the apparent acceptance by larger numbers of the managerial population of the concept of social responsibilities. Sixty-five percent of the Harvard respondents, for example, believe that social responsibility is an issue that concerns the individual manager, and 83 percent also agreed that it affects the role that the corporation should play in society.¹¹ Only 28 percent of these respondents endorsed the traditional managerial ideology that the social responsibility of business is "to stick to business."¹² If these, and similar, results are to be believed, the ideology of business is not only under attack from without; it is also being undermined from within. As Monsen has pointed out:

Over time, an ideology may evolve to meet certain challenges and, in doing so, change itself so completely as to be almost unrecognizable from its original form. This is so with capitalism.¹³

The managerial ideology has been altered repeatedly during the past 200 years, but typically these changes have occurred at the fringes of the central core. During the past decade or two, however, there are signs that the core is being scratched, or possibly even cracked, under internal and external pressures such as social responsibility. The central concept of the doctrine of social responsibilities is, after all, that the manager should directly concern himself with the welfare of others; and this doctrine (although it can be convoluted into compatibility with long-run profit maximization¹⁴), is basically antithetical to the central tenet of managerial ideology, which is that others are served best only when self-interest is pursued in a competitive environment.

Possibly, by itself, social responsibility would not be sufficient to alter greatly the traditional managerial ideology. There is traditional managerial ideology. There is some evidence that the new doctrine is not as firmly implanted in the managerial mind as its advocates would like. For example, business social activities apparently diminished rather substantially during the recessions of the 1960s and 1970s, indicating that, in part at least, such activities may be a luxury based more on corporate slack than fundamental moral principle. Be this as it may, the threats to the managerial ideology do not come solely from the doctrine of social responsibilities, but also from a wide variety of other directions. In fact these are so numerous that wide variety of other directionwide variety of other directions. In fact these are so numerous that they might best be described

by what William Pennel Rock has labeled a "rebellion."¹⁵ A rebellion is defined as a combination of rebellion and revelation, with the rebellion being against establishment institutions and ideas, such as the corporation and the managerial ideology, and the revelation consisting of the development of ideas based upon humane values.

One of the forces challenging managerial ideology has been the dramatic rise of egalitarian values in recent years, which has frequently led to action adverse to business interests.¹⁶ The spirit of egalitarianism, which Webster defines as "a social philosophy advocating the removal of inequalities among men," has always been present with varying degrees of strength in the United States. Typically, however, its thrust has been general and diffuse, and has not been directed specifically toward business. However, the "new" egalitarianism, supported centrally by the work of Harvard philosopher John Rawls, has made equality a prominent goal of American society, and has created an equity yardstick for measuring conformity to this goal.¹⁷ In the ideal Rawlsian "insurance state," social policy requires justice, which is defined as fairness, and which in turn leads to compensation of the disadvantaged. Egalitarian sentiments, in part at least, have always lurked in the background of America's income and inheritance laws, of course, but during the past decade they have also been used to justify such disparate activities as increases in tuition at public universities; affirmative action personnel policies; demands for increased welfare payments; pricing on the basis of "ability to pay"; "fair" competition; lower managerial compensation; a public sharing of private property; and the conservation of natural resources (e.g., "saving the countryside for "future generations").¹⁸ The emphasis on equality is, of course, not compatible with the managerial ideology. A free enterprise system is designed deliberately to create inequality. There are winners and losers; powerful and weak; rich and poor in a capitalistic society. So, as egalitarian beliefs become more and more pronounced, and as equality assumes an increasingly central position in American society, the managerial ideology, with its emphasis on inequality, becomes increasingly threatened.

There are other threats also to the managerial ideology, but space does not permit the mention of more than a few of these. There is, for example, the emphasis on the "quality of life," a philosophy which tends to degrade the managerial ideology with its materialistic goals, and to confuse the meaning of "economic progress" and "upward mobility."¹⁹ There is the consumerism movement, led first by Ralph Nader, which has forced self-interest to bend to new considerations. The ecology movement has caused managers to move forward with a new caution, and to consider externalities in their profit calculus. And, finally, there is the fact that managers play several roles—as consumers, voters, factors of produc-

tion, and societal members—so that it is difficult for an individual manager to adhere firmly to a single ideology with tenacious consistency. As Heilbroner has observed, as a citizen it is possible for the voter to cast his or her ballot for the redistribution of income, which in the managerial role might very well reduce the individual's net returns.²⁰

It may be—in fact, it is likely—that the managerial ideology will survive these attacks, as it has others, for the traditional capitalist paradigm is flexible—although philosophers, economists, and politicians have been twisting it for over two hundred years. The managerial ideology, and the system of capitalism that accompanies it, is basically a system of beliefs.²¹ And this ideology does express a number of values significant to Western civilization, such as justice, meritocracy, initiative, individuality, and freedom. The question, then, is not whether managerial ideology will survive, but in what form it will survive, and what role—prominent or minor—it will play in the American society.

Reality Colored by Ideology

It has been noted earlier that the vision of reality looked at through glasses of ideology frequently produces distorted images. John R. Bunting, for example, has written:

[The] businessman has come to be freed from the automatic discipline imposed by the "invisible hand" of competition. . . . Yet, by the very nature of the business system in which he believes, he feels that he must go on attempting to escape such discipline. . . . He finds it difficult to imagine that society will permit him to discipline himself if the marketplace can no longer do the whole job. The businessman is not even sure he would trust himself. So he protests loudly that what has happened hasn't really. Inevitably, however, his actions and his beliefs are adding up to a new kind of system. . . .²²

And E. Ray Canterbury has added, in the same vein:

As the Newtonian clock ticks on with the precision afforded by its calculus, economic time bombs are exploding at irregular intervals in our society. They are ignored by a paradigm preoccupied with the caricature of economic man, the idealization of perfect competition, and the hidden value judgments of positive science. Whether the idealization of perfect competition is confused with reality or with an extreme that becomes a goal in itself, the result is about the same. The status quo is either defended with an unrealistic rhetoric or else preserved with "do nothing" policies.²³

The major danger in viewing reality through ideology is that this process produces some of the delusions and distortions of mental illness.

Two examples will serve to illustrate this point: First, it has been argued that the public dislike businessmen exhibit toward governmental control is in large part imposed upon them by the managerial ideology, and that in fact they covertly recognize that without government intervention there would be a great deal less order in the system, and the environment in which they operate would be much more chaotic.

This conclusion does not assume that businessmen can stop worrying and learn to love the government. Quite the contrary, businessmen should continue to be worried, for only through disenchantment can we continue to progress in an orderly fashion. Nor is it necessary for businessmen to love the government. It is essential, however, that they recognize the strange alliance that has brought some degree of order into our economy, and from this point continue to strive for ever-increasing improvement—not destruction—of the business-government relationship.²⁴

The accuracy of this conclusion may, of course, be questioned, but there is some empirical evidence that business itself has often encouraged governmental regulation for its own ends.²⁵ The point is, nevertheless, that the public attitude of managers, adhered to with varying degrees of belief or cynicism and reinforced by ideology, does not permit widespread public discussion among them of the benefits that might, or do, accrue to corporations as a result of business-government interaction and government control. And so long as ideology prohibits a frank appraisal of reality it is difficult to optimize any benefits which might flow from improved interaction.

On the other hand, the American institutional system is so complex that reality may be impossible to examine except by simplifying ideological perspective. Many authors—Galbraith comes to mind immediately—have attempted to explore the modern American society with emphasis on the economic system, but these descriptions and analyses, while widely read, have not been widely accepted.²⁶ One author attempted to explain some of the phenomena observable currently in terms of society'sn some of the phenomena observable currently in terms of society's attempt to "perfect" capitalism.²⁷ Thus, it is argued that government during the past 100 years has itself been infected by the managerial ideology, and has repeatedly attempted to bolster competitive forces in the economy through legislation. This is not as unlikely as it seems for, as Lee Preston has observed:

... a public entity or regulatory body exists, just like the corporation, as a managerial organization within the larger society, and the problem of relating the goals and performance of any such entity to overall social goals will remain to be solved, regardless of its particular institutional character. The general point that managerial organizations

of all types are fundamentally similar with respect both to internal features and to environmental relationships is now commonplace in management literature.²⁸

The capitalist system, even in classical theory, was never considered to be perfect. While it had many attributes, and while these seemed to outweigh, on balance, its flaws, such imperfections as the lack of security, lack of mercy, at best an amoral value system, and the output of externalities as well as abundance have long been irritating. Also, the power of self-interest was underestimated and the ability of competition in all industrial environments to restrain self-interest was overestimated by the early economists. Much of the early (and continuing, of course) legislation concerning business in the United States was designed to strengthen competition by replacing it with regulation where the former was weak . . . to perfect capitalism. Perhaps if this adventure in repair had stopped with such remedial regulation the present situation would not be so confused. However, especially during the past decade or two there has been concerted action to remove other imperfections from the system, and legislation has been passed to make the economic system more secure—for the individual, the individual corporation, and business in the aggregate; to minimize externalities and their costs; to make the corporation, through due process and similar legislation, more merciful; and to bring morality to an amoral business world. The result of all of these efforts to create a more perfect capitalism may be that in the United States, as well as in many other so-called “capitalistic” nations, a new and strange system has been created, one for which there is no name as yet; one which is just barely recognized and largely unexplored; but one in which there may be great danger if the old capitalist ideology prevents managers and others from understanding what it really is and how it operates best.

The End of Ideology

It is difficult, in a chapter of this length, to do justice to a subject so complex as managerial ideology. But, then, the subject itself has scarcely been investigated deeply through research. Most of the work on managerial ideology has been conducted by social “critics” rather than social “scientists”; by “intellectuals” rather than by scientific scholars. Perhaps, in many ways, this is just as well, for the focus has been on ideas and concepts and on reasoned argument. The literature on ideology, therefore, has at least had the advantage of readability. Nevertheless, managerial ideology is a fertile field for further research, and while one may dread the coming of the scientific horde with its kitbag of statistical techniques and widely known ability to bring jargon and dullness to even the most exciting topic, there is no denying that managerial ideology as a research area is in great need of orderly scientific investigation. Such

investigation will undoubtedly require the sophisticated techniques of survey research, which should disclose, at least, the prevalence of, and the nature of, managerial ideology. However, there will undoubtedly always be a need for some less rigidly shackled model building, theory construction, and concept formulation to explain the impact that ideology has, or might have, on reality, and vice versa. There will be room, therefore, for both the "intellectual" and the "scientist" in exploring managerial ideology, and there is little question but that the efforts of both are desperately needed. This chapter began with the introduction of the effects of ideology on research. It is appropriate, therefore, to end this section with the statement that the time is right for scholars to make the attempt to see what might be the effects of research on ideology.

MANAGERIAL MOTIVATION

Relative to the work on managerial ideology, there has been much scientific research into motivation. A great deal of this research has been conducted by scholars trained in some branch of psychology who have an interest in what has come to be termed the area of "organizational behavior." Most of this research, however, has not been directed toward managerial motivation except in the most general way. Rather, it has been designed to obtain answers to questions such as: What makes employees work hard? How can a manager motivate subordinates? What instruments (e.g., money, approval) work best in motivating workers? General theories of motivation, which encompass managers incidentally within their domain, range from the relatively simple structures of Maslow and Herzberg to the more complex "expectancy models" which are still evolving, but which are illustrated by the research of Porter and Lawler and others.²⁹ While there is a great abundance of such literature on motivation, it will not be discussed in this section. First, it is too diffuse to be summarized briefly. Second, it requires considerable codification by some impartial expert, but most of the experts in the field appear to be advocates for a favorite (usually their own) theory of motivation, and lack either the distance or the objectivity needed for such an appraisal. And, finally, as noted above, most of this material is not explicitly directed at the subject of managerial motivation.

The social sciences other than psychology have treated managerial motivation only in passing. Thus, while discussions of motivation in, say, economics, are not unknown, they are uncommon. Most often the matter of motivation is subsumed, either implicitly or explicitly, as a part of a larger theory of behavior. Frequently a goal is postulated which is desirable, and consequently it is presumed that any rational individual would

move toward it. The most common models use a single goal, such as profits, to explain managerial behavior in terms of optimization. More sophisticated models contain multiple goals, and basically consist of optimizing through trade-offs, i.e., they perceive managerial behavior as an attempt to balance utilities in order to maximize total utility. And, finally, there are a series of models which, because of impediments either within the environment and/or the decision maker, do not require maximization: The best known of this set is the "satisficing" model developed by Herbert Simon.³⁰ While these models do not attack the question directly, one hopes that the discussion in the following pages will reveal that there are some interesting rationalizations which do emerge to shed some light on managerial motivation.

Models with Single Goals

The most familiar single-goal model relevant to the subject of managerial motivation is the traditional economic theory of the firm. This is one of the most highly elaborated, yet simple, theories constructed in any social science discipline. Basically it is assumed that business firms, operating in carefully defined environments, attempt to move toward the objective of long-run profit maximization by transforming inputs into outputs and by, in large part, adjusting the prices and quantities of inputs and outputs. Although this model appears straightforward, it does contain a few problems. One, for example, is that the concept of profits is somewhat "fuzzy" although it would seem that most economists would agree that:

(1) Profit is that *ex ante* "pure" amount or return in excess of all alternative costs. Although it is permissible to discuss profit in the short-run, long-run profit is most significant to the firm, and business enterprises are primarily interested in the latter. (2) Profit is allocated ultimately to individual owners of the company, although its distribution may be delayed by the firm in its journey to the final recipients. (3) Profits arise primarily through the performance of a host of entrepreneurial functions in an environment of uncertainty.³¹

Much of the controversy surrounding the economic theory of the firm has centered on points one and two—and the maximization hypothesis. The third point has been relatively well-accepted, although in the 1930s A.C. Pigou carried it to an extreme by arguing that the degree of uncertainty was closely related to the amount of profit, i.e., the greater the uncertainty, the greater the profit.³² Because both intuition and empirical evidence indicated that this correlation was not correct (it may very often be true that those who take the greatest risks receive the greatest gains, but

they are also most likely to suffer the greatest losses), Pigou's theory was never accepted by economists.

One of the principal difficulties with the notion of long-run profits involves the confusion that results when this concept is applied to reality. To the economist the "long-run" has a precise meaning useful for theoretical analysis. It refers to that interval in which all costs are variable, but is "timeless." However, some economists and most non-economists translate the long-run into some relatively lengthy period which is, naturally, longer than the short-run. When this transition is made the long-run profit maximization goal becomes nonprescriptive, and it is possible for the manager to justify almost any action in long-run profit terms. Thus, the company may have in its employ a long-time elderly worker whose efficiency has been substantially reduced with age. Traditional economic theory would seem to say that such a worker should be replaced with a younger, more vigorous employee. Yet, a manager might argue that this action, while reducing costs in the short-run and thereby enhancing profits, might also decrease long-run profits by giving the company a reputation as hard-hearted and cold, so that it would become more difficult to employ "good" workers except at a wage higher than the prevailing market wage.³³ Thus, when long-run profits are considered to be that stream of total net revenues accruing to organizational performance over the life of the firm, the ability of traditional theory to predict rational managerial action is impaired.

It is important to note that profit is *ex ante*. Thus, it is expected profit that leads to managerial action in traditional economic theory. Profit acts as an incentive to stimulate entrepreneurial activity, and it has always seemed rational to economists that businessmen would continue to want to make more and more net revenue. The reality of profit maximization as a goal in itself, however, has been questioned by a number of critics. For example, there is a group that advances alternative goals as most important: such goals as the maximization of total revenues (dollar sales); of increased market share; of increased rates of growth; or even of survival are claimed to be more significant than the maximization of profits.³⁴ There are also empirical studies which indicate that while profit *per se* is a significant goal, profit maximization is not.³⁵ And, finally, there has been considerable research which indicates that the drive toward profit maximization may be stronger for entrepreneurs than for salaried managers. A study by Mosen, Chiu, and Dooley, for example, concludes:

An analysis of the data reveals that the owner-controlled group of firms outperformed the management-controlled firms by a considerable margin. The net income to net worth ratio was 75 percent higher for owner-controlled firms than management-

controlled ones over the twelve-year period. This result indicates that the owner-controlled firm provides a much better return on the original investment, and suggests a better managed capital structure and more efficient allocation of the owners' resources. . . . No other effect, including the control plus industry interaction, is significant, indicating *that the owner or manager control type affects all industries tested very strongly.*³⁶

Similar results have also been found in empirical examinations of the relationships between executive compensation, firm size (defined as total revenues or sales), and profits. Most of the research into these correlations has concluded that executive compensation is more closely related to sales than to any other variable.³⁷ This result would not be expected in traditional theory, where profit maximization would lead one to assume that the value of the executive's compensation would be determined by the value of his marginal product. If, then, an executive is motivated by self-interest, these studies would seem to indicate that he or she should attempt to increase total revenues (sales) more than profits, since executive compensation is tied more closely to the former than to the latter.

The second major point in the economic theory of the firm is that profits are eventually allocated to the owners. This issue has often been clouded by economists who consider the "firm" (i.e., the organization) to be synonymous with the entrepreneur. In the real world of giant corporations, as Bronfenbrenner once wrote, ". . . the attempt to locate within a corporate body any 'entrepreneur' with paramount claim to profit is to look in a dark room for a black cat which is not there."³⁸ The use of such terms as "undistributed profits" has also led some observers to think of profits as being a return to the organization. Yet, it is clear that, as Triffin has noted, ". . . profit maximization is the concern, not of legal entities called firms; but of human beings."³⁹ And, if profits are the return to individuals, in the large corporation, to whom should they go? To managers, who may indeed be the entrepreneurs? Or to the owners, who may be more likened to capitalists or investors rather than possessors of the entrepreneurial spirit? Frank Knight once settled this matter for most economists when he said that: "The *crucial* decision is the selection of men to make decisions."⁴⁰ In this view, even in the large corporation, the stockholders make the final decision to hire, fire, or retain the management, and thus are in reality the entrepreneurs.

In the real world of large corporations it is not clear that Professor Knight's definite conclusion really holds so definitely. There is mixed evidence that, while shareholders do in some companies organize to rid their corporations of poor managers, a much more common act is for stockholders simply to relinquish their ownership interest. Cyert and

March, for example, have argued that shareholders can be appeased with an adequate return on their investment, comparable, perhaps, to that gained in similar companies, or with that received in a former year.⁴¹ However, when ownership is widespread and shareholder power minimal, there is little reason for management to concern itself with profit maximization or with extraordinary returns to owners. Indeed, there is some evidence to the effect that managers often consider shareholders to be just another claimant group on the revenues of the corporation. The *Harvard Business Review* survey mentioned earlier, for example, found that respondents felt a greater responsibility to their customers than to their shareholders.⁴²

Even in single-goal models, as this section has attempted to explain, many questions of managerial motivation remain unsatisfactorily resolved. If managers are motivated to maximize profits in the long-run, for example, as traditional economic theory assumes, it is not entirely clear that their specific actions can be predicted. Rational economic managers will not deliberately undertake actions or make decisions that will lead them away from their goal of long-term maximization. However, it is evident that there may be differences of opinion as to the propriety of certain acts, even when all are evaluated in terms of long-run profit maximization. For example, 43 percent of the respondents to the Harvard survey believed that socially responsible actions will mean higher profits in the long run, while 36 percent disagreed with this conclusion. On the other hand, 41 percent of the same respondents believed that social responsibility invariably will mean lower corporate profits in the short run.⁴³

This section has also noted that the motivation of owners might very well be quite different from that of managers. It was also observed that there is not complete agreement, even among economists, that profit maximization is the appropriate target of the firm. Or that managers may be satisfied with only appeasement levels of profit; or that they may instead find it in their own interests—since their compensation is evidently more closely related—to maximize sales rather than net revenues.

All of these issues raise interesting questions for further research into the relationships between organizational goals and managerial behavior. Many of these have not been explored or have only been examined in a cursory fashion in the literature.

Models with Multiple Goals

It is difficult, even for many economists, to view large organizations in the real world as inhabited by a managerial cadre motivated by the attainment of a single goal. Life is simply too complex, and individuals too

diverse in goals and desires. Goals and motives of managers not only may differ, or be confused; they also may change over time. Thus, as Preston and Post have noted:

Society may take into account and seek to influence the goals of the managerial units; and they, in turn, may take into account and seek to influence those of society at large. Neither are the two systems completely separate and independent nor does either control the other; their relationship is better described in terms of interpenetration.⁴⁴

Such complexity and change is difficult to describe in this limited paper. However, the sophistication of balancing multiple goals can be illustrated by examining simple two-goal models.

The first of these was originally discussed by Tibor Scitovsky.⁴⁵ In this model the owner-manager is confronted with conflicting desires for increased profits and increased leisure. If he or she is completely inactive in the company, total receipts, total costs, and net profits will be zero. As entrepreneurial activity increases, costs and income rise to a point where profits are maximized. How will the entrepreneur divide his or her time between work and leisure? By constructing an indifference map, along each line of which the entrepreneur is indifferent between profits and leisure, the optimal point can be found, which will be where the highest indifference curve is tangent to the net income curve. This point of tangency will not maximize net profits, however, unless the entrepreneur's interest in work is so intense that it is unaffected by the level of his or her money income, in which case the indifference map must be constructed with very atypical curves (i.e., at the point of tangency they must be horizontal).

In a similar two-goal model, assume that the two managerial objectives are profit maximization and the retention of financial control over the enterprise. If the company is permitted to expand at its maximum rate (so that the present value of the firm's net worth is maximized), the entrepreneur will have to surrender control, because large amounts of loan or equity capital will be required from external sources. In this simple model the entrepreneur is again faced with a choice: either growth can proceed at a lower than optimal rate and be financed through retained earnings, in which case complete control is maintained; or growth and profits can be maximized with a consequent loss of control. Faced with this problem the manager will probably compromise by expanding at a rate faster than that which could be sustained only through retained earnings, but not so rapidly that external sources will obtain a controlling interest over the destiny of the company.⁴⁶

Both of these simple two-goal models are similar in that they establish objectives which are desirable but diametrically opposed to one another, and therefore force a compromise motivated by self-interest. In the first case, the manager is torn between the desire for more profits, which will result only from more work (up to some optimal number of hours), and the desire for more leisure, which is available only through managerial inactivity. In the second case profits will not be maximized without a loss of control, and since both of these objectives are desired, some balancing is required by the manager. Although these models are simple, they do give insights into the relationships between goals and motives of managers which is not contained in single-goal models. First, they approach the complexity of human nature and of environmental goals more realistically. As every student of utility theory recognizes, life requires constant choices between "goods." Individuals who do not see these alternatives, or who consistently maximize only one goal, are most typically institutionalized, or, even worse, are described as "economic" men in basic economics textbooks. Second, these two-goal models, representative of the much greater complexity of goals that exists in reality, introduce the principle that costs are associated with achievement. These costs are typically recognized by economists as "opportunity" or "foregone" costs, but most often are not discussed as internalized within the individual manager. Nevertheless, it appears accurate to assume that the attainment of any goal requires personal sacrifice. In order to attain one goal, e.g., profit maximization, the individual must give up full attainment of other desirable goals. Sometimes, depending upon his or her motivation toward one objective, such costs will be borne; however, as these simple two-goal models suggest, the resulting behavior will often be sub-optimal with respect to either goal.

Although economics assumes no dichotomy between organizational and managerial goals, it is evident that such a rupture may, and indeed often does, occur. The manager, for personal reasons, might be motivated to act without regard to, or in opposition to, organizational goals. How compatibility between organizational and individual goals can be brought about is the subject of a huge literature which cannot be more than touched on in this chapter—and most of it deals with motivating the worker, not the manager, toward organizational ends. Nevertheless, there are a few concepts that may be noted.

For example, Chester Barnard and Herbert Simon have suggested that organizations exist only so long as the inducements offered to their populations (including managers) are greater than the contributions required from these individuals.⁴⁷ In the case of management, however, the bonds between the organization and the individual may be even stronger (al-

though similar) than this mere inducement-contributions explanation. Levinson, for example, has written:

Reciprocation is the process of carrying out a psychological contract between person and company or any other institution where one works. It is a complementary process in which the individual and the organization seem to become a part of each other. The person feels that he is part of the corporation or institution and, concurrently, that he is a symbol personifying the whole organization.⁴⁸

This statement indicates that the bond between the organization and the manager is psychological as well as economic, and that inducements contain nonmonetary components. No one other than managers, it would appear, would be more likely to internalize organizational goals, thus coming close to that ideal match between such goals and individual motivations. Economists, perhaps, were not too far off the mark when they equated the firm with the entrepreneur, but there is some evidence (e.g., the work by Monsen earlier cited as well as some of his other studies) that this equation does not hold as well where management is separate from ownership. And, indeed, as Fremont Kast has said:

In a sense it is unrealistic to expect a perfect compatibility and optimal satisfaction of individual and organizational goals. The individual *must* give up some of his individual autonomy and self expression to participate . . . in the organization. . . . Organization thus reduces personal autonomy in some spheres, but it also enhances opportunities for satisfaction in other areas. It is a trade-off—never optimal for either the organization or the individual.⁴⁹

The feature of goal-conflict models, whether the conflict is between individual goals or between organizational and individual goals, is that these are resolved rationally. That is, the individual either attempts to maximize one goal by sacrificing others, or through sub-optimization balances alternatives and decides on the most satisfactory compromise. Despite the process used, these models always assume utility maximization motivated by self interest. In other words, although multiple-goal models are more complex and more realistic than those containing a single goal, the motivation of individuals in either set of models remains the same—self-interest—but managerial behavior becomes more difficult to predict, even in theory.

Non-Maximizing Models

The best-known model of non-maximizing behavior is that presented by Herbert Simon and the Carnegie "school," which advances the notion

that individuals “satisfice” and have only “bounded” rationality. As Simon has written:

Administrative man recognizes that the world he perceives is a drastically simplified model of the buzzing, blooming confusion that constitutes the real world. He is content with this gross simplification because he believes that the real world is mostly empty—that most of the facts of the real world have no great relevance to any particular situation he is facing; and that the most significant chains of causes and consequences are short and simple. Hence, he is content to leave out of account those aspects of reality—and that means most aspects—that are substantially irrelevant at a given time. He makes his choices using a simple picture of the situation that takes into account just a few of the factors that he regards as most relevant and crucial.⁵⁰

In the economic theory of the firm the manager is always perfectly aware of the entire range of alternative choices available, and of all their possible outcomes. From these alternatives, and given the single, clear-cut goal of profit maximization, the entrepreneur is enabled to select that one best course of action. Since no such perfection is even approached in reality, Simon and others have suggested that the term “rationality” should be employed only when modified by descriptive adverbs. Thus, Simon has suggested such modifiers as “objectively” rational to describe economic man; “subjectively” rational if maximization is constrained by incomplete information; “consciously” rational to the degree that actions toward maximization are undertaken deliberately; “organizationally” rational if decision are oriented to organizational goals; and “personally” rational if they are oriented toward the individual’s goals.⁵¹

These modifiers establish limits or parameters within which rationality resides. Even should all these parameters tend to coincide, the very psychological characteristics of the decision maker, and the structure of the environment which confronts him, further limits his rationality. Real behavior cannot be objectively rational (except perhaps by chance). Behavior in reality is affected by personal, social, and external forces. Man does not have the complete knowledge of all the alternative courses of action open to him or of the outcomes of his decisions. He can anticipate the future consequences of his act, but only in an imperfect manner. Uncertainty, therefore, affects his decision and blemishes his perceptions. In a business firm, therefore, the presence of others may result in outcomes which are the products of conflicts of “rationality” so that the result does not seem to be “rational” to any of the participants.⁵²

Man is forced, therefore, by internal, intra-organizational, and external forces to have “bounded” rationality, which means that he can try to be

rational, and that rationality may be intended, but that he is forced by the complexity of the real world to make decisions based upon simplified models.

Because man possesses only bounded rationality he is forced to satisfice—to follow a course of action that is “good enough,” one that is satisfactory but not optimal. “Man does not have the wits to *maximize*.”⁵³ As a manager, he can aspire to make a “normal” profit, to charge a “fair” price, and to maintain the firm’s “share” of the market. Furthermore, such an individual may not even realize that all alternatives have not been explored; but instead he may rely on rules of thumb, tricks of the trade, or act in a habitual manner.

Cyert and March have constructed a theory of organizational decision making on the base of bounded rationality and satisficing behavior. Its skeleton contains the following: (1) multiple, changing, acceptable level goals; (2) the sequential examination of alternatives, with the acceptance of the first satisfactory alternative; (3) the avoidance of uncertainty wherever possible through the use of routine procedures; (4) standard operating procedures and rules of thumb are used in most choice situations.⁵⁴ The organization, in the Cyert–March model, is a colition between its members. Each member has goals and motivations, and, through a bargaining process between these individuals, organizational goals arise.

Although there has been some acceptance of, and some research on, the Carnegie models of business behavior, these have not been widely examined from either a theoretical or empirical perspective.⁵⁵ Probably such research has not been carried out because the concept of “Satisficing” is weak, i.e., it is not overly useful for predicting behavior. Suppose, for example, a manager has decided that there is an acceptable price for an item to be sold by the company. This is the price level aspired to, and any price above this level is “satisfactory,” while any price below is “unsatisfactory.” The problem is, of course, that the concept of satisfactory has one open end. “It is bounded by the acceptable price (x) as a minimum, but obviously within its range $x+1$ is more satisfactory than x , and $x+2$ is more satisfactory than $x+1$.”⁵⁶ This openness results in degrees of satisfaction, and satisficing behavior in many real situations becomes indeterminate unless it is qualified by some bounded maximization principle. And second, if, as some economists insist, the test of theory is its predictability, is it not more reasonable to assume that managers act *as if* they are maximizing profits rather than satisficing? Whether these individuals can or cannot do so because of bounded rationality is irrelevant, for better predictability will result if, whatever the state of uncertainty, of the environment, or of knowledge, the assumption is made that the manager will always take that alternative which he believes will have the most

favorable outcome. Therefore, his or her behavior can be predicted more satisfactorily if maximization motives rather than satisficing motives are attributed to the individual manager.

A concept allied to satisficing that has been found useful, especially by some psychologists in their efforts to relate behavior to motivation, is the "level of aspiration." Siegel has defined the level of aspiration for an individual as: "... a point in the positive region of his utility scale of an achievement variable; ... the level of aspiration is associated with the higher of the two goals between which the rate of change of the utility function is a maximum."⁵⁷ Siegel argues that any achievement falling below the aspiration level is failure: it has negative utility; while any level above has positive utility. The point at which the aspiration level is set in terms of utility constitutes a discontinuity below which the curve possesses a maximum slope. Atkinson has advanced a similar model which uses the motivational determinants of entrepreneurial behavior.⁵⁸ He has connected such variables as subjective probabilities (of success and failure), the negative incentive value of failure, the achievement motive, the incentive value of success and the motive to avoid failure with the difficulty of the decision or task. From these variables he sketches scenarios for achievement motivated individuals (Ms) who will continually strive to take on more difficult projects so long as they are successful (i.e., their level of aspiration will continually rise). If they fail they will shift to a lower level of aspiration and, if they continue to fail, they will sooner or later find that their motivation to achieve begins to diminish. If a person has a desire to avoid failure (Mf) his behavior may take several forms. To illustrate: If a very easy task is initially selected and the individual fails at it, and if there exists no easier task, the most difficult task may next be selected. In other words, his or her aspiration level may jump simply to minimize the expected pain of failure after a failure at the easiest task.⁵⁹

If aspiration level theory is applied to models of managerial motivation the latter come to resemble a step-wise, shifting, stochastic function. Managers would seem to raise their aspirations with success and lower them with failure. However, although there is considerable reasonableness to such assumptions, it is also questionable that behavior of this sort is universal. For some individuals, failure may result in behavior that is precisely opposite to that which might be predicted by such a theory. For example, in Las Vegas one often sees blackjack players who increase their bet after every loss rather than after every win. The principal problems with the concept of aspiration levels as a method of examining managerial motivation, then, would seem to be similar to those discussed with respect to satisficing. Namely, although they appear reasonable as descriptions, they are difficult to incorporate into a theory that will be of great assistance in predicting managerial behavior.

CONCLUSIONS

In a chapter of such limited dimensions it is difficult to give adequate treatment to the twin topics of ideology and motivation, much less to give appropriate arguments and evidence on which conclusions may be based. In this brief section, therefore, only the relationships between the two topics will be explored, together with some suggestions for future research.

Ideology is properly coupled with motivation because the former sets acceptable goals and guidelines for goal attainment. Individual managers are products of their ideologies, often without being aware of this fact. To say that managers have an inherent propensity to advance their own interests is, by itself, meaningless unless it is imbedded into some sort of ideological and cultural context. The very nature of "satisfactions" will depend upon ideology, and the process whereby these are "maximized" or "satisfied" will vary greatly depending upon the rules of society. Men in a variety of cultures may act to advance their self-interest, and may choose among alternatives in accordance with this objective, but *what* alternative they select, and *why* they select it, is often ideologically determined. Thus, to argue that men behave rationally or irrationally is to say little unless one has knowledge of ideological determinants and constraints.

The two topics, ideology and motivation, are, therefore, closely connected; but they are rarely examined together. More scholarship is needed to pierce, if possible, the veil of managerial ideology. More research is needed to examine this veil itself. There needs to be more research on managerial motivation in the context of managerial ideology. Only through such studies will we begin to understand not only how managers behave in our environment, but how they should behave in order to create a more equitable, abundant, efficient, and humane society.

FOOTNOTES

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EMPIRICAL STUDIES OF CORPORATE SOCIAL PERFORMANCE AND POLICY: A SURVEY OF PROBLEMS AND RESULTS*

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INTRODUCTION

Any attempt to summarize and evaluate the current state of research on corporate social performance and policy must be considered to be preliminary, partial, and a bit presumptuous. The absence of any previous systematic summary and analysis of research falling under this broad heading is probably due both to the extreme complexity and scope of the area and to the recency of much of the relevant work. Nevertheless, it does appear that such an effort may be useful in making sense of past research and in facilitating and channeling future work.

This chapter reviews research concerning a number of specific topics of

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current relevance to social issues and presents suggestions for future research. First, in view of the pervasiveness of the term "social responsibility," the various ways in which that term has been conceptualized and operationalized are reviewed. Second, research concerning the relationship of social responsibility to organizational effectiveness is evaluated. Third, linkages of social performance research to the literature of organizational behavior and organization theory are explored. Fourth, research concerning social attitude dimensions and their correlates is reviewed. Fifth, Steiner (1972) and others have noted that an important aspect of the social responsibility of business involves internal conditions—operations within the corporation itself. Consequently, research is reviewed concerning three areas of timely interest: managerial values, equal employment, and the quality of work life. Finally, certain methodological issues relating to surveys of social issues are considered.

ASSESSMENT OF SOCIAL RESPONSIBILITY

An example of the obstacles facing social performance research is the nebulous concept of social responsibility. If the causes and consequences of social responsibility are ever to be adequately assessed, it would seem to be necessary to arrive at some consensus on just what the term means. Yet, according to Sethi (1975), "The phrase corporate social responsibility has been used in so many different contexts that it has lost all meaning" (p. 58). Browne and Haas (1974) state that "As long as 'social responsibility' assumes as many different meanings as there are analysts of the phenomenon, we can expect little improvement in the quality of research in this area" (p. 47).

The difficulties inherent in attempts to operationalize "social responsibility" are evidenced by the plight of those mutual funds committed to the purchase of securities of only socially responsible firms. SEC regulations require that they be specific in their criteria. As noted by Malkiel and Quandt (1971), "It is hard to imagine a company completely free of connections that might be considered objectionable on moral, political, or social grounds by some member of the portfolio manager's constituency" (p. 42). Shapiro (1973) states that "... the three social funds have become the first institutional investors actually to come to grips with defining social responsibility and employing it as an investment criterion on a day-to-day basis" (p. 83). Partly as the result of such difficulties in definition, of the 90 stocks held by three "social" mutual funds in late 1972 or early 1973, only three were held by more than one of those firms, and none were held by all three.

Those difficulties are also reflected in the myriad of ways in which

degree of social responsibility has been operationalized in the empirical literature. These include:

Commission of illegal acts (Staw and Szwajkowski, 1975)

Pollution ratings (Bragdon and Marlin, 1972)

Response (versus nonresponse) to a social survey (Parket and Eilbirt, 1975)

Proportion of lines of prose in the annual report devoted to social responsibility (Bowman and Haire, 1975)

Independent ratings of social responsiveness (Sturdivant and Ginter, 1976)

Publicity concerning pollution (Fogler and Nutt, 1975)

It is clear that certain of these criteria (e.g., pollution ratings) are only partial gauges of overall corporate responsibility. Further, others are clearly suspect. For example, Parket and Eilbirt (1975) reasoned that respondents to their survey of corporate social responsibility were likely to be more responsible than nonrespondents and subsequently used response versus nonresponse as their social responsibility index without further supporting evidence. However, Buehler and Shetty (1976) compared social actions of companies responding and not responding to their own social survey and stated that

Analysis of the data from these two groups confirmed broad similarities among social action programs of responding and nonresponding companies. It was concluded, therefore, that the firms not responding to the questionnaire were not less significantly committed to social action programs than were firms that did respond. If anything, the nonresponding firms seemed to be more active in social action programs than the firms that did respond. (pp. 68-69)

Thus, the validity of the Parket and Eilbirt index is at best doubtful.

The Bowman and Haire (1975) measure, the proportion of lines of prose in the annual report devoted to social responsibility, is also questionable. Bowman and Haire viewed this measure as an overall gauge of social responsibility, a sort of corporate Rorschach. To support this contention, they showed that 14 companies in business journalist Milton Moskowitz's (1974a,b; 1975) "premier" group of socially responsible firms devoted a larger proportion of lines to corporate social responsibility than did a group of "neutral" firms randomly selected from the same industry and of approximately equal size. However, it does not necessarily follow that a relationship found using such an extreme group as the Moskowitz "premier" group, with all the favorable publicity they may have received, would generalize across the corporate population. Also, Fry and Hock (1976) have shown that tendencies of firms to report socially responsible actions in their annual reports are an increasing function both of how

negatively the public views the industry and of company size. They argue that social responsibility is claimed in annual reports by "the biggest and the worst" and that "... the companies may be as much interested in the P.R. effect of an action as they are in its social impact" (p. 65).

It should be clear on the basis of this review that the dissimilar, and often suspect, ways in which social responsibility has been operationalized in the empirical literature demand caution in interpretation of study results and in comparison of results across studies. At this point in the development of the empirical social issues literature, attempts at adequate conceptualization and operationalization of social responsibility may be as valuable as examination of correlates of questionable indices. Browne and Haas (1974) present the discouraging argument that measurement of social responsibility may in fact be infeasible. They reason that an action can be classified as socially responsible only if it conflicts with the company's private responsibility to shareholders. Since only relevant decision makers in the firm are fully aware of alternatives to a particular activity, it is not possible for an outside observer to decide whether that activity conflicts with private responsibility, and thus whether it is socially responsible. Since it is unlikely that firms would be willing to fully display their internal decision making processes, measurement of social responsibility may not be feasible. Such arguments, while debatable, suggest the problems associated with attempts to come to grips with this issue and lend support to the view that it may be useful to de-emphasize the term "social responsibility" in favor of a focus on specific clusters of socially relevant activities.

THE RELATIONSHIP BETWEEN SOCIAL RESPONSIBILITY AND ORGANIZATIONAL EFFECTIVENESS

Many writers have argued that social responsibility is, or is not, good business (cf. Aldag & Jackson, 1975; Davis, 1973). Despite the obvious importance of this issue, relatively little empirical evidence concerning the relationship of company effectiveness to socially responsible behavior has been documented.

One line of inquiry has been to consider the performance of the "clean" mutual funds, those purchasing securities only of corporations they consider to be socially responsible. If social responsibility is, in fact, good business, one might expect to find these "clean" funds to be outperforming their less discriminating counterparts. Parenthetically, it should be noted that since some purchasers of mutual funds might invest in the "clean" funds because of moral as well as financial considerations, those

funds should have a unique advantage in the marketplace. However, Malkiel and Quandt (1971) have cited evidence that funds restricting themselves in certain ways, such as by refusing to purchase securities of firms doing business in South Africa, would do less well than others. More recently, Shapiro (1973) noted that "All of the [social responsibility] funds have been plagued by relatively unattractive performance" (p. 85). Of three such funds, the best performer had an increase in net asset value of 1.25 percent over a nine-month period in 1972, while the worst had almost a 10 percent decline. Further, Shapiro pointed out that "... the social responsibility funds clearly have not developed the kind of market they expected after polls by Dreyfus and others showed a significant proportion of mutual fund shareholders desired to include social responsibility in investment decision making" (p. 86). Thus, it does not appear that evidence concerning the "clean" funds is supportive of a positive relationship between social responsibility and financial performance.

In a related vein, Milton Moskowitz, former editor of *Business and Society*, developed portfolios of "responsible" and "irresponsible" companies (1974a,b; 1975). The Moskowitz ratings were a function of many factors such as pollution control, equal employment opportunity, community relations, plant safety, and responsibility of advertising. In 1972, share value of his "responsible" companies rose 16.9% as compared to between 14% and 15.6% for major market indices. However, in 1973, his portfolio of responsible companies declined 26.3% versus 20.5% for the "irresponsible" companies and 16.6% to 19.6% for the major indices. Ackerman and Bauer (1976) note that, while Moskowitz did not continue his newsletter in 1975, this 1973 portfolio of "responsible" companies would have declined by 46% in 1974 versus about 30% for each of the major indices and only 13% for the "socially irresponsible" companies.

Also superficially nonsupportive of a positive relationship between social responsibility and financial performance is a study by Fogler and Nutt (1975) of investors' evaluations of paper companies after substantial publicity was released about their pollution tendencies. They found there was no unfavorable reaction to publicity about pollution in terms of changes in price/earnings ratios, mutual fund purchases, or short-run price changes. However, Fogler and Nutt noted that, while changes in price/earnings ratios were not significantly different between responsible and less responsible firms, this "... can be explained primarily by the fact that the earnings of the less socially responsible declined more than did those of the other companies at a time when the earnings of most paper companies declined" (p. 157). Thus, in this case, there apparently was a favorable relationship between earnings trends and responsibility.

Other positive evidence has been presented. For example, while focusing on attitudes rather than actual socially responsible behavior, Reimann

(1975) found that favorability of attitudes of top managers toward a variety of societal elements (community, suppliers, customers, government, and so on) was generally significantly positively related to company performance ratings and negatively related to executive turnover. As Reimann noted, however, his results should be interpreted cautiously. For example, the performance rating used was based on how favorably executives of each subject firm rated their firm's performance relative to competitors along a variety of dimensions. Thus, favorability of executives' attitudes toward their firms was correlated with favorability of their attitudes toward societal elements. Consequently, scale use tendencies, halo error, or other problems could influence the findings. Further, again as recognized by Reimann, the cross-sectional nature of the study precludes the drawing of confident causal conclusions. It is reasonable to expect that when an executive sees his firm as being relatively successful in dealing with societal elements, he will view those elements more favorably than would otherwise be the case.

Sturdivant and Ginter (1976) developed a 65-item instrument to determine the profile of a top management group's attitudes on socially sensitive issues. Items on the instrument concerned attitudes about a variety of issues, including business, education, and social order. One-hundred-thirty key decision makers in 67 companies responded to the questionnaire. Further, Sturdivant and Ginter classified firms as "best," "worst," or "honorable mention" in terms of social performance on the basis of ratings developed by Milton Moskowitz (1974a,b; 1975). Finally, data concerning ten-year (1964-1974) growth in earnings per share were obtained for each firm. A factor analysis yielded 13 factors. Responses of managers from "best" firms were significantly more liberal along several dimensions, especially concerning racial attitudes and perceptions of the poor and other nonmainstream citizens, than were responses of managers from "worst" firms. Further, in terms of the relative economic performance of firms, the "honorable mention" firms were found to outperform the "best" firms, which, in turn, outperformed "worst" firms. Sturdivant and Ginter interpreted these results as "good news to advocates of greater corporate social responsiveness" (p. 20). While the findings might suggest that (1) liberal social attitudes on the part of key corporate decision makers lead to socially responsible corporate actions and (2) socially responsible corporate actions result in good economic performance, Sturdivant and Ginter were careful to point out that clear causal inferences could not be drawn on the basis of the data. The findings, do, however, suggest a favorable pattern of association. Further information about such characteristics of the subject firms as geographical location would have been useful in providing clues concerning whether any of the relationships were spurious.

Parket and Eilbirt (1975) collected data from 96 major companies concerning social issues. They found that, in terms of a number of economic indices, respondents to their survey outperformed the remainder of the Fortune 500 list. They concluded that, since their respondents were likely to be more socially responsible than were nonrespondents, these findings provided evidence of a favorable relationship between social responsibility and economic performance. However, as noted previously, this index of social responsibility must be considered to be extremely weak. Consequently, the findings are suspect.

Bragdon and Marlin (1972) found a significant, though modest, positive relationship between return on equity of 17 firms in the paper and pulp industry and the Council on Economic Priorities rating of their behavior in pollution control. Bowman and Haire (1975) reported a similar significant positive relationship between return on equity and their social responsibility measure, the proportion of lines of prose in the annual report devoted to social responsibility. Further, they found that performance was highest for the medium-responsibility group, next highest for the high-responsibility group, and lowest for the low-responsibility group. Their reanalysis of the Bragdon and Marlin data yielded a similar curvilinear relationship. Also, it should be recalled that a similar pattern was reported by Sturdivant and Ginter (1976). The findings from these three studies concerning the social responsibility-economic performance relationship are summarized in Table 1.

In each case, performance is highest for the intermediate-responsibility group, next highest for the high-responsibility group, and lowest for the low-responsibility group. It should be recalled, however, that the validity of the Bowman and Haire social responsibility index is questionable. Moreover, such findings as those reported above concerning performance of the Moskowitz "responsible" and "irresponsible" firms and the major market indices do not appear to follow this pattern. Nevertheless, while it is clearly dangerous to overinterpret these findings, their stability across the three studies is intriguing in view of the varied ways in which social responsibility and performance were operationalized.

Table 1. Performance Scores As A Function of Social Responsibility Category

Study	Social Responsibility Level		
	Low	Medium	High
Sturdivant & Ginter	.69 ^a	1.26	1.18
Bragdon & Marlin	9.6 ^b	11.9	10.3
Bowman & Haire	10.2 ^b	16.1	12.3

^a Average economic performance, in terms of growth in earnings per share, relative to industry.

^b Median percent return on equity.

Bowman and Haire (1975) explained their findings in terms of Bowman's (1963) earlier work. Briefly, that work suggested that while a particular manager's individual estimates may be sub-optimal, such estimates pooled over time and over managers may give nearly optimal results. Extending this logic to their current study, Bowman and Haire suggested that median levels of social effort, reflecting the collective wisdom of a large number of managers, may be similarly optimal. Further, they argued that, since deviation from the median in either direction would thus lead to sub-optimal results, the disappointing performance of the "clean" mutual funds is understandable.

Bowman and Haire state that "we are prepared to argue that corporate social responsibility is not a causal factor in itself but is a signal of the presence of a style of management that extends broadly across the entire business function and leads to a more profitable operation. It is a diagnostic sign of an appropriate posture in dealing with a multivector, changing environment" (p. 54).

In summary, the previously noted difficulties associated with most current social responsibility indices coupled with discrepant findings across studies preclude any firm statement concerning the sign and magnitude of the relationship between social responsibility and corporate economic effectiveness. Further, it seems clear that even in those cases where apparent relationships between social responsibility measures and effectiveness indices have been isolated, directions of causality have not been firmly established. Thus, it cannot be stated with certainty whether social responsibility is a cause of corporate effectiveness, a consequence, or if any such relationships are spurious. It would seem that longitudinal analyses and experimental designs would be useful in future studies in order to enhance confidence in the understanding of relevant causal mechanisms.

SOME LINKAGES OF SOCIAL ISSUES TO ORGANIZATION THEORY AND BEHAVIOR

Despite the apparent relevance of a number of topics in organization theory and behavior to social issues, there have been relatively few attempts to isolate empirical linkages between the areas.

For example, Fry (1975) has suggested that expectancy theory, a currently popular motivation theory, may be useful in guiding corporate social actions and in showing how motivation to perform social actions may be increased. It would also be interesting to attempt to predict corporate social activities on the basis of that theory. In a related vein, Peak (1955) has shown how concepts related to expectancy theory are useful in ex-

plaining, and may be used to influence, attitudes towards such socially relevant activities as the removal of segregation and the use of minority-group members as officers in charge of white enlisted men. However, empirical studies in this area are lacking.

Similarly, attempts to empirically relate corporate social activities to such variables as leadership style of chief executives, organizational climate, and employee commitment to the organization, while potentially enlightening, have not been reported. There has been some attempt to consider personality correlates of social attitudes and behaviors. Hegarty and Sims (1976) found such indices as locus of control, economic and political value orientation, and Machiavellianism to be related to unethical behavior. As noted in a later section, Aldag and Jackson (1977) found relationships of social attitude dimensions to faith in people, locus of control, and authoritarianism.

Some preliminary attempts at examination of the relationships of corporate size and function to social attitudes and behaviors have been reported. Aldag and Jackson (1977a) found size to be related to social attitude dimensions. Eilbirt and Parket (1973a) found larger firms to display more participation in 14 or 15 types of social activities than did smaller firms. Gomolka (1975) found significantly positive relationships between size and 7 of the activities included on the Eilbirt and Parket (1973) list. Buehler and Shetty (1976) found larger firms to report more organizational and policy changes as a result of social demands than did smaller firms. Further, manufacturing firms reported generally more policy and organizational changes than did nonmanufacturing firms. These findings taken together suggest that company size may be an important determinant of executive social attitudes and corporate social activities. The findings concerning size could reflect the fact that larger firms may have more slack resources than do smaller firms or that large firms see themselves as potential targets of social criticism.

While these findings suggest that size and structure may impact on social activities and attitudes, the reciprocal relationship, the impact of social demands on corporate structure and policies, has also received some attention. For example, Carroll (1974) has outlined how corporate social responsibility may impact on structure, policy, and other areas. Paluszek (1973) has examined how three companies organized for social responsibility. Gallese (1975) has noted how "futurists" are being used to discern the future implications of past and present social trends. Eilbirt and Parket (1973b) found over half the respondents in their survey to include a social responsibility officer and examined the characteristics of those officers. Empirical evidence relating to the nature and extent of social policy formulation is also presented by Baker (1973) and Henry (1974).

A further set of variables which could be explored to gain more insight into the understanding of corporate social activities relates to the organizational environment. In recent years, such environmental dimensions as uncertainty (e.g., Lawrence & Lorsch, 1967), munificence (e.g., Staw & Sz wajkowski, 1975), complexity (e.g., Osborn, 1976), volatility (e.g., Burns & Stalker, 1961), and dependency (e.g., Osborn & Hunt, 1974) have been viewed as determinants of such variables as managerial responses, organizational structure, and the efficacy of alternative structures. However, few studies have attempted to empirically relate the organizational environment to social activity. Hegarty and Sims (1977), using an experimental design, found that unethical behaviors increased with heightened competition and in situations where unethical behaviors were rewarded. A study by Staw and Sz wajkowski (1975) of the relationship between the scarcity-munificence of organizational environments and the occurrence of illegal acts showed that firms in less munificent environments, as gauged by industry financial performance, were more frequently involved in a variety of types of litigation than were others.

Interestingly, however, many of the illegal acts committed by organizations in the scarce environments in the Staw and Sz wajkowski study (e.g., price fixing, reciprocity, mergers, and acquisitions) were themselves ways to influence the environment and, in particular, to reduce environmental uncertainty (cf. Cyert & March, 1963; Pfeffer, 1972a; Thompson, 1967). Thus, socially relevant activities should not be seen as solely passive reactions to environmental demands. Indeed, the trend in the organization theory literature in recent years has been to view the key direction of causality as being from the organization to the environment, rather than vice versa (cf. Cyert & March, 1963; Starbuck, 1965, 1976; Thompson, 1967). A number of corporate actions which have obvious social impacts have been considered as ways in which the organization might reduce environmental uncertainty. These include (cf. Staw & Sz wajkowski, 1975):

- Engaging in long term contracts (Macauley, 1963)

- Absorption of environmental elements (Bowman & Haire, 1975; Selznick, 1949)

- Seeking external support for the organization (Litwak & Hylton, 1962; Zald, 1967)

- Forming temporary coalitions or joint ventures with other organizations (Aiken & Hage, 1968)

- Undertaking interorganization merger (Pfeffer, 1972a).

Along with the uncertainty of the environment, the degree of dependence of the organization on environmental elements would appear to be a determinant of socially relevant activities. Gomolka (1975) found organizations high in dependence on environmental elements to report greater

involvement in seven specific social activities, and in total social activities, than did organizations low in dependence. Similarly, organizations with voting shares had significantly greater involvement in eight social activities than did organizations of other status. Pfeffer (1972b) found firms with high debt/equity ratios, requiring special relations with capital markets, to have more representatives of financial institutions on their boards of directors, and firms in regulated or quasi-regulated industries to have more attorneys on their boards, than did their opposites. Such findings suggest that dependence on particular environmental elements may result in socially relevant corporate structuring and activities.

Taken together, the above studies indicate that the nature, intensity, and range of socially impacting corporate activities may be a function of such environmental dimensions as uncertainty, complexity, munificence, and dependence.

SOCIAL ATTITUDE DIMENSIONS

While several studies have considered scores on individual items or *a priori* groupings of items relating to social issues, or have considered how such scores differed between groups, there have been few attempts to empirically identify specific dimensions of attitudes toward social issues. It would appear that progress toward the understanding of social attitudes demands that well-defined, measurable, replicable sets of attitudes be identified. Once such sets of attitudes can be confidently assessed, attempts can be made to understand their causes and consequences.

Two recent attempts at such assessment have been made by Sturdivant and Ginter (1976) and by Aldag and Jackson (1977b). As noted previously, Sturdivant and Ginter factor-analyzed 130 responses of top managers in 67 companies to 65 statements dealing with business, education, social order, and other issues. They identified 13 factors explaining 43.1% of total variance. Those factors were named, respectively, (1) privilege, power, and government policy, (2) human rights, (3) business and broad social concerns, (4) discipline, (5) privacy and morality, (6) retention of national strength, (7) customer satisfaction, (8) aid to education, (9) caveat emptor, (10) business prosperity, (11) quality of life, (12) priorities and order, and (13) distrust of advertising. Attitudes along several of these dimensions were found to be significantly different between firms differing on rated social responsibility. Two problems with the Sturdivant and Ginter work should be noted. First, the basis for selection of items for use in the scale is not specified. Second, as recognized by Sturdivant and Ginter, the ratio of responses to items was so small that stability of the derived factor structure is questionable.

Aldag and Jackson (1977b) developed a 54-item Social Attitude Questionnaire (SAQ) on the basis of the Aldag and Jackson (1975) categorization of attitudes concerning social responsibility. Factor analysis of responses of 207 business students, with an average of over 5 years of business experience and 3.5 years of college education, yielded 5 factors, named and defined respectively, as:

Traditional Orientation—Emphasis on profit maximization as the key corporate goal and on efficient production of goods and services as the social responsibility of business.

Demander Orientation—Emphasis on the desirability of allocation of excess corporate resources to societal elements rather than to stockholders.

Constrainer Orientation—Emphasis on the need to place legal constraints on firms to prevent exploitation of various market imperfections.

Negative Orientation Toward Alleged Social Responsibility—Belief that social responsibility is a gimmick and a cover for mismanagement.

Negative Orientation Toward the Adequacy of Corporate Social Efforts—General negative attitude toward current corporate social efforts and toward competence of businesspersons in social areas.

Subscales were formed by summing items loading above .3 on only one factor. All internal subscale reliabilities were in excess of .6. Numerous significant relationships were isolated between derived subscales and respondent sex, age, years of college education, and years of previous business experience.

Aldag and Jackson (1977a) also administered the SAQ to a sample of 245 business executives from a large number of industries. The factor structure for that sample was virtually identical to that of the business student sample. The subscales were shown to be generally independent of social desirability of responses as assessed by the Crowne-Marlow (1964) scale. Firm size indices were significantly positively related to Traditional Orientation and negatively related to Negative Orientation Toward Alleged Social Responsibility. Further, significant relationships of subscale scores to such social-psychological indices as authoritarianism (Lane, 1955), faith in people (Rosenberg, 1957), and locus of control (Valecha, 1972) were isolated.

These findings suggest that certain attitudes toward social issues may be reliably measured and may be a function of both contextual and social-psychological variables. It would be interesting in future studies to examine the behavioral correlates of such attitudes.

VALUES

Several writers have suggested that values may be a particularly important variable in explaining organizational behavior in general and socially responsible behavior in particular (e.g., Sikula, 1971; Connor & Becker, 1975; Rokeach, 1968; Cavanagh, 1976). Yet the values variable has received relatively little research attention.

Undoubtedly, one reason is the current confusion stemming from the use of such terms as values, attitudes, and perceptions to describe similar constructs. Rokeach (1968) has defined values as "abstract ideals, positive or negative, not tied to any specific object or situation, representing a person's beliefs about modes of conduct and ideal terminal modes" (p. 124). Connor and Becker (1975) have suggested that values be considered as "global beliefs about desirable end-states underlying attitudinal and behavioral processes" (p. 551). Attitudes, they suggest, should be viewed more as cognitive and affective states oriented toward *specific* objects and situations. While this differentiation is helpful, it still is somewhat difficult to draw the line between what is specific and what is general. Hence, further conceptual work, particularly on values as they relate to social responsibility, is sorely needed.

England (1967) has developed the most widely used measure of managerial values in literature with direct relevance to social responsibility. The Personal Values Questionnaire (PVQ) is based upon 66 concepts dealing with goals of business organizations, personal goals of individuals, groups of people, ideas associated with people, and ideas about general topics. Respondents rate each concept on its importance, as well as on three other dimensions: successful, right, and pleasant. England argues that the importance attached to the various concepts is the primary gauge of the general value of objects or ideas, but use of the other three dimensions adds to the predictability of likely behavior. High importance and success ratings suggest a pragmatic orientation as a primary mode, while high importance combined with high right or pleasant ratings suggest ethics-moral or affect-feeling modes, respectively. A concept has operative value if it is rated as highly important and also falls within the individual's primary mode. Operative values, England argues, are the values most likely to form the basis for actual behavior.

England's (1967) survey of 1072 managers selected from Poor's 1965 *Directory of Corporations, Executives, and Directors* showed that as a total group, the primary orientation of managers was pragmatic with a secondary orientation that was moralistic-ethical. According to England, the secondary orientation will have low impact on behavior. Specific items of direct relevance to social responsibility, such as employee wel-

fare and social welfare, received the lowest importance ratings in the goals of business category. In addition, they received low success ratings, suggesting, under England's scheme, that these items would receive low priority in managerial behavior. Generally, managers also were found to value such characteristics as ambition, ability, and skill to a greater extent than they value such characteristics as loyalty, trust, and honor.

England and Lee (1971) conducted a follow up study comparing U.S., Japanese, and Korean managers. Among the eight goals of business rated, results showed that the social welfare goal received the lowest operative value rating from the managers of all three countries. The employee welfare goals also consistently received the second lowest operational value score, even though the U.S. managers gave employee welfare a significantly higher rating than did the other two groups. Based on the total results of the study, it appeared that values were influenced, at least to some extent, by cultural variables.

DeSalvia and Gemmill (1971) used the PVQ to investigate differences between U.S. managers and business students. Their results suggested that students were even more pragmatic in orientation than were the managers in England's study, although the students perceived themselves as less pragmatically oriented than managers. The secondary orientation of the students was moral and ethical, but less so than the managers. The specific goal of social welfare, however, was somewhat more operative for the students, while values on employee welfare were similar. Thus, it appears that the students falsely perceived the managers as being more concerned with such things as power, aggressiveness, and money than they themselves. The data seem to suggest the existence of dysfunctional stereotypes among business students regarding the values of managers.

Lusk and Oliver (1974) have attempted to investigate the stability of personal value systems by replicating England's study five years later. Lusk and Oliver drew their sample from the 1971 Edition of Standard and Poor's *Directory of Corporations, Executives and Directors*. Results suggested that managerial value systems are relatively stable. Because issues of social responsibility had received considerable public and business attention between 1966 and 1971, it might have been expected that values in related areas would have shown some change. However, Lusk and Oliver concluded that concepts which would suggest a response to growing social and environmental consciousness, including employee welfare and social welfare, still failed to appear in the operational value category.

Watson and Barone (1976) compared the personal values of black and white managers using England's PVQ. Consistent with the previously mentioned studies, both groups displayed a primary pragmatic orientation and a secondary moralistic-ethical orientation. Although there were dif-

ferences between the black and white groups on specific concepts, the value orientation generally was similar. The data suggest that the ethnic variable is not an important factor affecting the personal values of managers.

Singer (1975) has investigated managerial values using the Allport, Vernon, and Lindzey *Study of Values* questionnaire. He administered the questionnaire to a group of managers in 1960–62 and again a decade later. The data suggested that on the values issue, successful and less successful managers were similar to each other and to a group of highly successful businessmen who served as college trustees. All three groups had lower scores on social or altruistic values than on power, economic, and intellectual values; but the college trustee group gave the highest rating to social values.

Part of the work by Holmes (1976) on executive perceptions of corporate social responsibility also appears to be aimed at global assessments closely akin to values. Based on a sample of top executives from 192 firms, she found that 46.4% of the executives selected the statement, "In addition to making a profit, business should help to solve social problems whether or not business helps to create those problems: even if there is probably *no* short-run or long-run profit potential." Only 31.3% said they held that opinion in 1970. Other choices ranged from no responsibility to responsibility even though it would reduce short-run profits. Based on these self-report data, there appeared to be a shift toward more socially responsible opinions. Interestingly, respondents also perceived their firms to have changed philosophies in a positive direction toward social responsibility since 1970 and expected further change by 1980.

Another research approach related to the values issue has attempted to profile "American big business ideology" through a content analysis of a sample of executive speeches between 1954 and 1970 (Sieder, 1974). Social responsibility as a theme was mentioned in only 19 percent of the 538 speeches analyzed. Sieder discounted the contention that social responsibility is receiving widespread business attention in more recent years by noting that only 29% of the speeches between 1961–70 expounded a social responsibility theme; however, there does appear to be an increase over previous years. Interestingly, the study showed that social responsibility themes were most likely to appear in the speeches of representatives of the petroleum, retail, and automobile industries. Siedler suggested that these industries all deal fairly directly with consumers. They have also borne the brunt of considerable consumer criticism. Hence, it is likely that the publicly expressed values of ideologies of executives may be affected by environmental factors. It also seems probable that public speeches by company executives do not necessarily reflect their own personal values as much as those of the "firm." Data collected by Holmes

(1975) suggests that executives are able to differentiate between their own feelings and those of the firm. What is not known, however, is what cues or variables affect employees' perceptions of a firm's values. While it clearly is not possible for the firm itself to have values apart from those of people within it, little is known about the process through which "official" value positions are established and disseminated.

In a related study, Reimann (1974) attempted to measure the "public philosophy" of organizations. He viewed the public philosophy variable as the cognitive orientation of top-level management toward the various publics with whom the organization interfaces and saw it as being conceptually close to the notion of values. The Public Philosophy Questionnaire (PPQ) was utilized in the study. This measure asks the respondent to rate nine publics using ten bipolar adjective scales. The questionnaire was administered to top executives in 19 small- to medium-sized manufacturing firms in the Midwest. Results showed that response variances between managers in various firms were greater than the variances within managers in the same firm. Thus, the data appeared to differentiate variations in the public philosophies of companies by pooling the value responses of top executives.

Several studies have attempted to relate managerial values to various outcomes such as turnover and success. Reimann (1975) found that the averaged PPQ responses of managers for each firm were better predictors of executive turnover and perceptions of organizational success than were structural variables like size, dependence, and rate of technical change. Hence, the collective values placed on the organization's publics may be of considerable importance in understanding behaviors related to social responsibility. Connor and Becker (1975) have argued that values may constitute a more parsimonious predictor of organizational phenomena than many concepts such as attitudes which appear to be related to one's values.

England and Lee (1974) found that personal values were somewhat predictive of managerial success as measured by managerial pay adjusted for age. Goals of social and employee welfare, however, were not among those significantly related to success. In addition, there were significant negative relationships between success and trust, loyalty, cooperation, and equality.

White managers, in a study by Watson and William (1977), showed values-success patterns similar to the U.S. managers in the England and Lee (1974) study. The similarity was weaker for black managers. Items of particular relevance for social responsibility, such as social and employee welfare, again did not predict success for either the black or white group.

In a study closely related to the values issue, Gemmill and Heisler (1972) investigated managerial Machiavellianism. The researchers found

that Machiavellianism was related to higher job strain, lower job satisfaction, and perceptions of fewer opportunities for formal control. In addition, Machiavellian orientation failed to be predictive of upward mobility.

Recent literature on personal values and organizational social responsibility support the Connor and Becker (1975) view that personal values may constitute useful organizational variables. However, the literature also appears to indicate that values related to social responsibility are not among those most salient to managers or most important to their success. Data tracing changes in the extent to which managers value social responsibility offer mixed results. Only self-report data show a significant shift.

It must be noted, however, that the values literature to date raises a number of issues in need of further research. First, few attempts have been made to investigate the extent to which England's (1967) PVQ actually is predictive of behavior. Hence, the assumption that certain ratings are more likely to influence actual behavior than are others remains untested. One recent study of managerial decisions in five hypothetical situations (England, Dhingra, & Agarwal, 1974) suggests that the PVQ may be predictive of managerial behavior. Second, little is known about the extent to which one's own values are related to socially responsible behaviors or about conditions which may mediate that relationship. Yet evidence exists which indicates that employees may face considerable pressure to conform to the expectations of others (Krishnan, 1973). Third, virtually no work has focused on isolating variables which influence the formation and change of organizationally relevant values. Fourth, further conceptual and measurement development and validation work is needed to facilitate both future study and the comparison of results in a variety of settings.

EQUAL EMPLOYMENT

A number of writers in the area of corporate social responsibility have called attention to the particular importance of the equal employment issue (Steiner, 1972; Purcell, 1974; Ackerman, 1975; Churchill & Shank, 1976). Much of the research has concerned the black ethnic group and women. Scattered recent research also has considered other factors, such as age and disability.

Ethnic Factor

Research involving blacks and social responsibility generally is of two types. The first concentrates on global societal evidence of economic and employment discrimination against blacks (e.g., Hauser & Featherman, 1974; Garfinkle, 1975; Farley, 1977), thus signaling and monitoring the

need for corporate social responsibility. Many of these studies utilize census-type data to track the status of black versus white groups. Surveys charting the utilization of blacks across a variety of organizations also fit into this category (e.g., Council on Economic Priorities, 1974).

The second type of research related to equal employment of ethnic groups centers on particular organizations or subgroups and attempts to identify factors which hinder or foster the employment and upward mobility of blacks. In general, the second type has greater operational implications for corporate social responsibility and is the focus here.

Considerable research to date has concerned problems associated with the hiring and training of the hard-core unemployed. Extensive reviews of the literature and practice has been provided by Goodman, Salipante, and Paransky (1973), Koch (1974), and Cohn and Lewis (1975); hence, that data will not be repeated here. Early efforts to integrate the hard-core worker into the organization appear to have placed undue emphasis on training without taking into consideration the individual, the job, and the organizational and social environment of the potential employee (Heller-vik, 1974). Supervisory and peer supportiveness, training which emphasizes job skills, and personal counseling have been found to be related to hard-core employee longevity on the job (Koch, 1974; Salipante & Goodman, 1976). However, considerable emphasis currently is being placed on organizational factors, such as pay, promotional opportunities, job status, and job security as factors in the retention of the hard-core unemployed (Goodman & Salipante, 1976). Based on an extensive review of the literature, Katz (1974) has argued that the job-related behavior of disadvantaged workers is associated more closely with situational factors, such as chronic unemployment and continual barriers to job market entry, than with culture-bound values involving their ethnicity. Since the problems of the hard-core unemployed appear to be far from solved, research aimed at assisting organizations in attracting, training, and retaining hard-core workers needs to be accelerated.

A relatively neglected, but growing, area of research concerns the utilization of blacks in managerial positions. One thrust of this research has sought to determine the extent to which the leadership style of black versus white managers might differ, possibly signaling the need for adaptations in equal employment strategies. King and Bass (1974) have hypothesized a number of behavior effects which may be due to the interaction of leader and work-group ethnicity. Based on a review of related literature, Bartol, Evans, and Stith (1978) found support only for the King and Bass notion that black supervisors tend to be less directive than are white supervisors when subordinates are predominantly white. However, only a few studies have simultaneously compared multiple leader-subordinate ethnic conditions (Hill & Hughes, 1974; Hill & Ruhe,

1974; and Allen & Ruhe, 1976). In those studies, no differences have been found between black and white leader behavior in equivalent situations. It appears that black versus white leader-behavior differences isolated by some studies may be related to methodological limitations rather than to actual ethnic effects.

Research data on the job performance of black versus white leaders suggest a tendency to use different criteria to evaluate black versus white employees (Huck & Bray, 1976; Beatty, 1973). The trend is toward evaluating blacks more on human relations or interpersonal factors than on task factors. In addition, research findings indicate that performance judgments often are affected by the ethnic characteristics of the evaluators, although the evidence is mixed (e.g., Richards & Jaffee, 1972; Abrahams, Atwater, & Alf, 1977). There is a serious dearth of studies which have used objective data as a basis for evaluating black versus white leader performance. Hence, little is known about factors which may affect the performance appraisals of black versus white leaders and potential leaders; but research to date suggests that equal employment efforts will have to contend with these ethnic effects. In areas of job satisfaction and job attitudes, there appear to be more similarities than differences among black and white leaders, supporting Katz's contention that many differences attributed to ethnicity actually are class based. For an extended review of research comparing black versus white managers, see Bartol, Evans, and Stith (1978). Although data indicate that black and white leaders are similar in many respects, only tentative conclusions can be drawn due to the meagerness of the research base. Also, there appear to be enough differences involving the ethnic identification of the leader, the leader's supervisor, and the subordinates to warrant further research, particularly on interaction effects.

In view of the rhetoric associated with apparent efforts to encourage the upward mobility of black employees, surprisingly little research is available to guide corporations interested in achieving equal employment internally. Yet data indicate that formidable barriers to the upward mobility of blacks continue to exist (Brown & Ford, 1977). In a relatively rare research look at the problems of bosses of new professional black employees, Kraut (1975) found that white managers often are apprehensive about supervising new black subordinates. Problems ranged from a fear of customer reactions to uncertainty about how to handle social events. Considerable self-report and informal survey data (e.g., Mitchell, 1969; Nason, 1972; Jones, 1973) also indicate many difficulties experienced by new black professional employees. Hence, the issues involved are multi-dimensional.

Based on interviews with 588 employees from the state of Illinois, Haefner (1977b) found that employees expressed preferences against

working with blacks, women, older individuals, or barely competent persons. Furthermore, data presented by Jedel and Kujawa (1976) suggest that efforts to extend equal employment opportunities may not be uniformly perceived by the constituent ethnic groups.

Bass, Cascio, McPherson, and Tragash (1976) have reported on one at least partially successful training program aimed at increasing the awareness of managers about affirmative action for black employees.

Gradually, researchers are beginning to learn more about ethnic factors and the organization. Due to the present meager amount of research, the corporation seeking to insure the upward mobility of black employees will find little specific guidance from current research related to social responsibility. Hence, there is a critical need for empirical research in virtually every area related to black upward mobility.

Sex Factor

Attempts are continually being made to determine the extent of employment discrimination toward women as a group (e.g., U.S. Department of Labor, 1975; Ferber & Lowry, 1976). As with blacks, such efforts help to document the need for corporate action in areas where women appear to be receiving unequal employment treatment. Efforts have also been made to survey groups of industries (e.g., Bureau of National Affairs, 1971), to document the employment of women in various job categories within selected industries and major companies (Council on Economic Priorities, 1974), and to assess the channeling of women into particular types of jobs even in nonstereotyped industries (Mennerick, 1975).

A central problem in the equal employment of women continues to be the upward mobility of women and their movement into nontraditional types of jobs. Recent empirical work, particularly in the area of leadership, is beginning to provide data which is relevant to operationalizing social responsibility in the employment of women.

There apparently exists a variety of opinions suggesting that women do not make effective managers (e.g., Bowman, Worthy, & Greyser, 1965; Bass, Krusell, & Alexander, 1971). In particular, there appears to be an impression of women as highly consideration oriented as leaders (Bartol, in press). However, data from a variety of empirical studies comparing male and female leaders, particularly as perceived by subordinates, have found relatively few differences in the leader behavior of male and female leaders (e.g., Bartol, 1973; Day & Stogdill, 1972; Bartol & Wortman, 1975; Chapman, 1975; Osborn & Vicars, 1976).

Although studies of task performance in groups led by male versus female leaders have mainly centered upon laboratory situations, there also appear to be few differences in work-group performance associated

with the sex of the leader (e.g., Bartol, 1975; Eskinson & Wiley, 1976). In addition, several studies of job satisfaction of subordinates of male and female leaders generally indicate few differences in subordinate job satisfaction related to the sex of the leader (Maier, 1970; Bartol, 1975; Bartol & Wortman, 1975). Hence, current research suggests the existence of relatively few differences between male and female leaders in leader behavior, job satisfaction of subordinates, and work group performance (Bartol, *in press*).

An exception to the similarity of subordinate job satisfaction has been isolated by two studies (Petty & Lee, 1975; Petty & Miles, 1976), which found lower job satisfaction among males working for female supervisors. Since this phenomenon did not occur in all field studies (e.g., Bartol & Wortman, 1975; Osborn & Vicars, 1976), the results may be due to specific factors in the organizational setting. However, the data indicate that particular attention and organizational support for all concerned may be needed, at least in the initial stages of situations in which males report to female leaders.

Current research evidence also indicates that sex role stereotypes intrude in a number of fairly unobtrusive ways to affect organizational operations and interfere with equal employment efforts. For example, there also was a tendency in the Petty and associates studies (1975, 1976) for subordinates to be more satisfied with their work when female leaders engaged in high levels of consideration behavior and in the latter study to be more satisfied when males engaged in task oriented leader behavior. Thus, it appears that sex-role stereotypes affect expectations of both male and female leader behavior (Schein, 1975; Bartol & Butterfield, 1976). Since, as was mentioned earlier, data indicate that sex of the leader is not a good predictor of leader behavior, sex-role stereotypes have the potential for creating a great deal of interpersonal difficulty within the organizational setting.

Furthermore, evidence suggests that sex-role stereotypes are likely to have considerable impact on hiring, promotions, and other personnel decisions. In one study (Cecil, Paul, & Olins, 1973), business students were asked to evaluate what an interviewer should consider important in interviewing a particular candidate "for a job as a white-collar worker." The results indicated that candidates with female names were seen as potential clerical workers, while candidates with male names were seen as potential administrative employees. Other studies involving business students and professional interviewers found that the evaluators accepted male applicants for managerial positions more frequently than female applicants with the same credentials. The more the hypothetical position was described as demanding in the sense of requiring aggressive and decisive behaviors versus clerical accuracy and dependability, the less the likeli-

hood that a female was accepted for the job (Rosen & Jerdee, 1974; Dipboye, Fromkin, & Wiback, 1975). Female leaders have received more favorable evaluations than males in a situation of "relative failure" (Jacobson & Effertz, 1974) and have received similar ratings as males in a hypothetical, but neutral, sex-typed position (Brief & Wallace, 1976). Hence, we are apparently dealing with complex stereotypic phenomena. A study by Hall and Hall (1976) suggests that the use of specific performance data in making evaluations reduced the tendency to rely on stereotypes. This is consistent with arguments by Campbell et al. (1970) that global assessments of performance and potential performance are not very reliable.

Based on these data, further research to increase employment equality will need to be aimed at methods for reducing the organizational effects of sex-role stereotyping at critical decision making points, such as selection and promotion. A study by Miller, Labovitz, and Fry (1975) suggests that women who do move up the organization "run the risk of losing friendship and respect, influence and access to information" (p. 378). Research on equal employment strategies which avoid these types of side effects is also critically needed. Unfortunately, much of the currently available material in this area is anecdotal at best. While the emphasis has been on women as organizational leaders, similar stereotype-related problems appear to exist for women attempting to enter other nontraditional areas as well.

Age Factor

Amidst growing discussion about problems of older employees, recent evidence indicates the existence of age-related work stereotypes. Rosen and Jerdee (1976a) found that the average 60-year-old person was perceived as having a lower performance capacity and less development potential, but as being more stable, than the average 30-year-old. Further work by Rosen and Jerdee (1976b) confirmed that age stereotypes were likely to lead to organizational discrimination against older workers, strictly on the basis of their age. Haefner (1977a) also found that age affected employer preferences in ways which were disadvantageous to older workers. Research aimed at understanding the ways in which stereotypes affect older workers and developing methods to overcome these stereotypic effects is needed to help organizations discharge their social responsibilities with respect to older employees.

Disability Factor

Studies of the effects of disability on equal employment prospects are relatively rare. Krefting and Brief (1976) have noted the confusion which seems to exist between a disability which "is a decrease in the functioning

capacity of some part of system of the human body," and a handicap which "is a disability that interferes with normal activities." In focusing on the disabled, Krefting and Brief had college students rate hypothetical job applicants for a typing position. Generally, disabled applicants were given overall ratings as high as the nondisabled applicants. The authors suggest that the disabled be encouraged to actively seek positions which match their qualifications. Further study, particularly involving more upwardly mobile positions, is needed to determine the impact which disability factors may have on the equal employment efforts of organizations.

QUALITY OF WORK LIFE

Concern for the "quality of work life" promises to become an increasingly important social responsibility issue in the decades ahead (Gerson, 1976). Noting the difficulty of specifying the meaning of the phrase, Walton (1973) has proposed eight major conceptual categories encompassed by the quality of work life. The eight categories are: (1) adequate and fair compensation, (2) safe and healthy working conditions, (3) immediate opportunity to use and develop human capacities, (4) future opportunity for continued growth and security, (5) social integration in the work organization, (6) constitutionalism in work organizations, (7) work and the total life space, and (8) the social relevance of work life.

These areas are related to an expansive variety of organizational research which is beyond the scope of this paper to review. For example, considerable work is being done on adequate and fair compensation (e.g., Lawler, 1971; Ronan & Organt, 1973; Dyer & Theriault, 1976), changing the nature of tasks to facilitate human growth (e.g., Hackman & Oldham, 1975; Sims, Szilagyi, & Keller, 1976), work and the total life space (e.g., Dubin, Champoux, & Porter, 1975), and the constitutionalism issue (e.g., Bernstein, 1976). Most of this research is aimed at, or has the potential for, isolating methods which can be used to positively affect the quality of work life.

Operationalizing the quality of work life concept, however, will depend in part on the development of means to measure the quality of life of an organization. Such efforts are closely related to attempts to specify criteria of organizational effectiveness. In fact, if one assumes that a rich quality of life has a positive effect on at least the organization's long-run prospects for survival (Lawler & Hackman, 1971; Mirvis & Lawler, 1977), it is possible to conceptualize the quality of work life aspect as an important criterion of organizational effectiveness. A recent review of 17 major organizational effectiveness models by Steers (1975) shows that several models have incorporated employee job satisfaction as a criterion

of effectiveness. Only one (Schein, 1970), however, contained elements more closely akin to the quality of work life concept, such as open communication, flexibility, creativity, and psychological commitment.

Macy and Mirvis (1976) recently have attempted to develop a methodology which can be used to assess the quality of work life and organizational effectiveness in behavioral-economic terms. Their framework included four variables related to member participation: absenteeism, tardiness, turnover, and work stoppages and strikes. Six other variables were used to reflect role performance: productivity, product or service quality, grievances, accidents and job-related illnesses, unscheduled downtime, and unaccounted for inventory, material, and supply utilization variances. The authors have attempted to develop their measure in terms of specific behavioral outcomes to which costs can be assigned. The elements included in the framework, however, do not appear to be of sufficient breadth to encompass the quality of work life categories, at least as envisioned by Walton (1973).

Other approaches related to the measurement of organizational effectiveness, such as goal achievement (Steers, 1975) or the use of judges (Campbell, 1976), may be helpful in attempting to develop adequate means of assessing organizational quality of life. Such inquiries also may involve additions or alterations to Walton's initial categories. Research aimed at clarifying the concept of, and developing measures for, the quality of work life construct constitutes the main research priority at this time.

SOME METHODOLOGICAL ISSUES CONCERNING SOCIAL SURVEYS

Numerous writers have presented results of surveys aimed at determining such things as the importance of social responsibility relative to other corporate goals (e.g., Louis, 1969), the relative roles of various causes for social actions (e.g., Buehler & Shetty, 1974), beliefs and reported behaviors concerning ethical and social issues (e.g., Newstrom & Ruch, 1975; Van Over & Barone, 1975), outcomes of social involvement (e.g., Holmes, 1976), degree of environmental concern (e.g., Bowman, 1977; Diamond, 1970; Kefalas & Carroll, 1974), and determinants of areas of social involvement (e.g., Holmes, 1976).

Such studies are useful in providing some insights into views of particular groups of individuals concerning these issues and, in some cases, in tracing relevant changes over time. However, a number of caveats should generally be kept in mind in the consideration of the results of such surveys.

First, psychometric adequacy of instruments is seldom demonstrated. Often, single-item indices are used. Further, the degree of self-selection of respondents is often so great as to severely limit confidence in the validity and generalizability of results.

A further difficulty common to most such efforts is the transparency of the questions and the obvious resultant dangers that the answers given will be a simple function of social desirability of responses (cf. Thomas & Kilmann (1975)). Where feasible, it would be useful in future studies to include scales to assess social desirability of responses (e.g., Crowne & Marlowe, 1964) and agreement response tendencies (e.g., Couch & Keniston, 1960). Failure of rankings or ratings to significantly correlate with scores on those scales would enhance confidence in their meaningfulness. In the absence of such analyses, it may be more useful to consider correlates of rankings or ratings than to place undue emphasis on the rankings or ratings per se. That is, while the scores themselves may be contaminated by response set tendencies and response style tendencies, it may still be useful to consider their correlates unless such tendencies are known to be a function of the variables considered as correlates.

One way to reduce the dangers of obtaining socially desirable responses is to use less transparent, though admittedly more complicated, techniques. It should be remembered in choosing such techniques that it is not generally the relative importance of various attributes, per se, which is of interest to the decision maker. Rather, the decision maker often desires information which will be useful in choosing between alternatives, where those alternatives differ in terms of social impact and other dimensions. Thus, what is needed is a way to assess the relative attractiveness of alternatives differing in terms of their scores on a number of attributes. One promising possibility for such an assessment is the use of multi-attribute utility (MAU) models (cf. Huber, 1974a,b; Keeney, 1972). Such models attach an overall utility to an object, such as a particular social activity, which has a number of relevant attributes. Thus, they may be useful in providing insight into the relative desirabilities of alternative social programs.

There are two basic approaches to the development of such MAU models. One of these, termed the client-explicated approach, (cf. Huber, 1974a,b; Keeney, 1975b) was used by Keeney (1975a) to develop a framework for evaluating tradeoffs associated with alternative energy/environmental strategies in the state of Wisconsin. Some of the eleven variables considered by Keeney are presented in Table 2.

It seems likely that it would be extremely difficult to make confident choices between alternatives differing on such dimensions on the basis of the findings of traditional survey techniques. The client-explicated approach requires the individual to develop his or her utility function for

Table 2. Data Concerning Energy Alternatives

Attribute	Measure	Level	
		Best	Worst
x_1 = fatalities	deaths	100	700
x_5 = SO_2 pollution	10^6 tons	5	80
x_7 = thermal energy needed	10^{12} kwh (thermal)	3	6
x_8 = radioactive waste	metric tons	0	200
x_{11} = electricity generated	10^{12} kwh (electric)	3	0.5

each relevant attribute and to then assign weights to the various attributes. It has been used for such varied purposes as health-program funding, labor-management negotiations, job search and applicant placement, and teacher evaluation. Edwards (1976) demonstrates how this approach can be used to make three specific social decisions relating to water quality, land use management, and development of the 1974 research program for the Office of Child Development of H.E.W.

The alternative to the client-explicated approach, termed the observer-derived approach, involves presenting the decision maker with a series of alternatives differing on levels of the various relevant attributes and requiring that a rating of the alternatives then be made. Levels of the attributes may then be treated as independent variables, and the ratings as the dependent variable, in multiple regression analyses to derive MAU models. Observer-derived models have been used for such purposes as disaster analysis, labor-management negotiations, organization design, and job evaluation. Multiple correlations associated with the resulting models were often above .9 (cf. Huber, 1974b). A related approach, involving pairwise comparisons of multi-attributed alternatives, is suggested by Shocker and Sethi (1973) to incorporate societal preferences in the development of corporate action strategies.

SUMMARY

This chapter has reviewed recent research in a number of areas relevant to corporate social performance and policy and has drawn conclusions where feasible. On the basis of that review, specific suggestions for future research have been presented. Briefly summarized, those conclusions and suggestions include:

1. To this date, indices of "social responsibility" have varied widely across studies and are generally flawed. If social responsibility is to continue to be used as a variable in research, it is imperative that greater attention be focused on adequate conceptualization and operationaliza-

tion of the term. Until adequate refinement of indices of social responsibility takes place, it may be useful to de-emphasize the term in favor of a focus on specific social activities.

2. The magnitude, sign, and direction of the relationship between corporate economic effectiveness and socially responsible behavior remain unclear. The increased use of longitudinal analyses and of experimental designs would be useful in providing insights into the nature of relevant causal mechanisms.

3. Opportunities to profitably link social issues research to the literature of organizational behavior and organization theory have not been fully exploited. In particular, further examination of the relationships of social attitudes and behaviors to motivation of top executives, their leadership styles, organization size, structure and function, and characteristics of the organizational environment is needed.

4. Some attempt has been made to empirically isolate sets of social attitudes and to relate those attitudes to contextual and social-psychological indices. Research is needed to further explore the causes and consequences of social attitudes. In particular, examination of behavioral correlates of social attitudes would be useful.

5. Research is needed to alleviate current deficiencies in our understanding of the relationships of managerial values to actual subsequent behaviors and of moderators of such relationships. Similarly, additional research is needed to isolate determinants of the formation and change of organizationally relevant values. Finally, further conceptual and measurement development and validation work is needed to facilitate future study of values and to ease comparison of results across studies.

6. In relation to the equal employment issue, research was reviewed concerning blacks, women, age, and disability. While knowledge about the roles of ethnic factors in the organizational setting is increasing, research in certain critical areas is meager. In particular, research is especially needed in areas related to black upward mobility. A central problem in the equal employment of women continues to relate to the upward mobility of women and their movement into nontraditional types of jobs. Future research should be directed at examination of methods for reducing the organizational effects of sex-role stereotyping at critical decision making points, such as selection and promotion. Similarly, evidence reviewed concerning problems of older employees suggests that research is needed to enhance understanding of the ways in which stereotypes affect older workers and to develop methods to overcome stereotypic effects. Finally there is a paucity of studies concerning the effects of disability on

equal employment prospects. Further research, particularly concerning the impact of disability on upward mobility within the organization, is needed.

7. Concern for the "quality of work life" is reflected in a rapidly growing literature on the topic. A key priority for future research in the area should be the clarification of the quality of work life construct and the development of psychometrically sound measures of that construct.

8. Numerous surveys have been conducted which involve an implicit or explicit assessment of the relative magnitude of the roles of various socially relevant factors. While such surveys are useful for certain purposes, they are generally subject to a number of questions concerning validity and reliability. More attention should be given in future studies to assessment of the roles of acquiescence tendencies and of social desirability of responses. Further, methodological refinements such as the use of multi-attribute utility models and related techniques may be useful.

It is clear in reflecting upon this review that social issues researchers must cope with a number of problems of definition, measurement, and design which may at times seem insurmountable. However, such difficulties should not be used as excuses for the curtailment of meaningful research efforts in this increasingly crucial area. Future empirical investigations of the types outlined above should serve both to clarify a number of theoretical issues of current relevance and to provide valuable guidelines to companies seeking to improve their social performance.

FOOTNOTE

*The authors made equal contributions to this chapter. Names are presented alphabetically.

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SOCIAL POLICY AS BUSINESS POLICY

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INTRODUCTION

Our objective in this chapter is to describe research on, and suggest researchable questions about, social policy as business policy. Our canvas is viewed from the perspective of the manager of a business organization. Our interest is the manager's development of social policy as distinct from economic policy. Our focus is not on the formulation of public social policy, but we do consider managerial appraisal of public social policy as it affects the formulation of a social policy in an individual company. The emphasis in this chapter is primarily on describing different methodologies, subject matter, and results of research in the area.

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Suggested topics and methodologies for future research are also presented. Because this terrain is far too broad to cover fully in the space allotted, our discussion will be selectively illustrative of major facets of the subject.

Business Social Policy

There is no consensus about the meaning of the phrase "business social policy," and we shall not take the time in this article to attempt to settle the matter. The senior author has made that effort elsewhere (Steiner, 1975a). However, for the purposes of this chapter a few comments should be made about the words "social" and "policy."

By social policy we mean attitudes and actions of managers of business organizations to meet social, as distinct from purely economic, demands and/or expectations of the company's constituents, pressure groups, and governments. We recognize that some observers, including the present authors, believe that business organizations are socially responsible when they seek to utilize scarce resources efficiently in producing goods and services that people want at prices they are willing to pay. Under this definition it could be said that a policy to improve productivity per man-hour is a social policy. For purposes of this article, however, such policies are considered to be economic policies and will not be discussed further.

There is no consensus about the meaning of the word policy, although, here again, the senior author (with John Miner, 1977) has sought to clarify the definition of the word. Succinctly, for purposes of this paper, we refer to policy as a major decision made by the top management of a company to be implemented by all members of the organization. A decision to employ a greater proportion of women at higher managerial levels, for example, would be a social policy. A decision to create a committee of outside members of the board of directors to establish policy for social programs would be a social policy.

If policies are to be implemented they must be translated into detailed subpolicies, procedures, and rules. While the scope of this chapter includes such subject matter, our major attention will be focused essentially on broad social policy at the top of organizations.

Social policies may be concerned with internal as well as external conditions involving a company. For instance, internal social policies may relate to such matters as assuring due process in hiring; promoting and discharging people, formulating plans to help employees design more meaningful careers in the company, or establishing day nurseries for working mothers. Social policies concerning external affairs would involve matters such as meeting governmental antipollution standards, producing products having no toxic effects, or setting aside a given proportion of net profits for philanthropic purposes. It is apparent that a listing of

possible business social policies could run into hundreds, if not thousands, of topics.

Research concerning business social policies can be divided into two major categories, namely the macro and the micro. In the macro area we include social policies relating to business as an institution. For instance, in this classification would be included research concerned with the broad question of whether business does or does not have social responsibilities which should be translated into social policies. The micro area is concerned with social policies of specific business organizations. Our major emphasis in this chapter is on the latter.

Our definition of business social policy is obviously very broad. To make the subject manageable we shall divide the discussion as follows. First, we shall focus on the macro question: should business have social policies? Then we will address the following questions concerning individual businesses: What do managers think about social policies? What are individual businesses doing about social policies? What are corporations doing to formulate and implement social policies? Should corporations make and publish social audits of their social policies and programs? What is the relationship between profit and social policy? What may be the nature and scope of future business social policies? What are the boundaries to businesses' assumption of social programs? Finally, what conclusions may be drawn about current research and future research possibilities on business' social policies?

Should Business Have Social Policies?

This chapter would not have been written if we did not have an affirmative answer to this question. The question needs to be asked and answered, however, because there are still strong voices opposed to businesses' voluntary assumption of social responsibilities. Also, the way in which the question is answered will vary from time to time.

Research in response to this question has been predominantly broad, contemplative, philosophical, and speculative. A vigorous and prominent spokesman for the negative viewpoint is Milton Friedman, who set forth clearly the classical laissez-faire view of managerial responsibility in *Capitalism and Freedom* (1962). He has since strongly reaffirmed his early point of view on a number of occasions (e.g. 1970).

Another school of thought is represented by Neil Chamberlain, who believes that the search for profit maximization and growth will relegate business social policies voluntarily assumed to a distinctly secondary position. He does not agree with Friedman's view that the assumption of social responsibility by business is subversive. Rather, he says, nothing much will be done (1973).

While there still is strong opposition to businesses' assuming social

responsibilities other than those connected with economic efficiency, the volume of thoughtful literature supporting the assumption by business of social programs is growing (for example, Preston and Post, 1975; Lodge, 1975; Rockefeller, 1973; and Committee for Economic Development, 1971).

Recent research has gotten more specific about particular social policies for companies. The senior author prepared a set of social policies for a corporation (1972) which, in effect, established overall guidelines for the development of specific social policies. For instance, the first suggested overall policy is "to think carefully about (the company's) social responsibilities." This policy does not commit a company to any particular social program but it does say that the company believes its first social responsibility is to think carefully about its social responsibilities. Other suggested broad social policies concern the types of programs which should be pursued and modification of the profit motive. In addition, specific actions with respect to marketing are suggested to illustrate the type of subpolicies for functional areas which could, and should, be derived from overall social policies.

Support for assuming social responsibilities comes not alone from the above type of contemplative research but from evaluation of particular changes taking place in the business environment. The General Electric Company, for instance, has developed a program to evaluate demands and threats of its many constituent groups to which the company should respond (Ian Wilson, Chapter 2, in Steiner, 1976). This research has led to specific policies to respond to them.

Different constituents of a corporation have varying degrees of influence on social policy. The employees of an organization, of course, have considerable influence on social policy. Collins and Ganotis made an initial effort to determine employee attitudes about different types of social conditions which could influence social policy. Their research developed a methodology for evaluating suggested types of attitudes which may be important in developing a firm's social policy (in Sethi, 1974a).

One other research thrust which can be used to support social policies may be noted here. David Novick suggests a cost/benefit analysis to support social programs. Both costs and benefits are broadly defined in the analysis. If the benefits to a company are calculated to be greater than the costs there is a presumption that the programs are justified (Chapter 5 in Anshen, 1974).

Despite the substantial volume of research in this area there are many opportunities for additional, useful work. As noted above, the question of responsibility for undertaking voluntary social programs (as distinct from those mandated by government) is not one which can be settled at any one time and for all time. It must be temporized. The business environment is

constantly changing, and, with it, societal expectations and the way in which particular business should respond. Thus, there is a constant need for reevaluation of the question of business social responsibility at a high philosophical level as well as the micro level.

Many of the problems facing the modern corporation in formulating social policy are problems which have been the subject of vigorous philosophical inquiry for centuries. The question of the justice of the impacts of the large corporation on people's lives, for instance, has begun to assert itself strongly in the last decade. A major philosophical issue may also be found in the problematic relationships between large corporations and their multitudinous constituencies, each crying out for special favors and consideration. The concept of representation—which is really the root problem—is one which has been studied by philosophers since the first governments were formed. Also, many contemporary thinkers have come to the conclusion that the legitimacy of the modern corporation is threatened by social and moral shifts (see, for example, Yankelevich in Sommers, 1975). Legitimacy is also a concept about which philosophy—particularly political philosophy—has had much to say over the centuries.

These philosophical issues are central in the formulation of business social policy which will insure the long-term survival of the firm and give concrete meaning to the concept of social responsibility. There is room for much interdisciplinary research for scholars who are prone to accept what one student of philosophy has called “. . . the hard and hazardous task of dealing with problems not yet open to the methods of science . . .” (Durant, 1926, p. 2). Some examples of philosophical inquiry exist (Anshen, 1970; Gillespie, 1975; McGuire, 1977), and there is a continuing need for it.

This also suggests an opportunity to examine and/or compare past answers to the question. There have been some historical surveys of the meaning of social responsibility, but not many (Heald, 1970). Projections of what the answer may be in the future would also be valuable (Edmunds, 1978).

What Do Managers Think about Social Policies?

There is no question about the fact that more and more managers, particularly of the large corporations, accept a responsibility for establishing social policies for their corporations which dictate appropriate responses to their changing environments. This is clear in surveys concerning the profit motive.

In 1969 a survey of 350 executives polled by *Fortune* magazine showed that 10 percent felt that the sole business of business was to make a profit. At the other end of the spectrum were 17 percent who said that business

should assume social responsibilities even at the cost of reduced profits. In this same poll 94 percent of the respondents said their companies were involved in social programs (Louis, 1969).

In 1971 the *Harvard Business Review* surveyed 3,453 of its subscribers and asked them how valid they thought each of the following observations were: (1) "A Corporation's duty is primarily to its owners and only to its owners." (2) "A Corporation's duty is primarily to its owners and secondarily to employees, customers, and the public." (3) "A Corporation's duty is to serve as fairly and equitably as it can the interests of four sometimes competing groups—owners, employees, customers, and the public." (4) "The primary duty of the enterprise is to itself—to ensure its future growth and continued functioning as a profit-making supplier of goods and services." Seventy-four percent responded that the first statement was the least valid of the four. Only 2 percent said it was the most valid. Sixty-one percent said that the third statement was the most valid of the four. Only 2 percent said that the second statement was the most valid (Ewing: 1971, p. 147). Holmes conducted a similar survey among the *Fortune* 500 in 1976 and concluded that the trend toward greater acceptance of social responsibilities was continuing (Holmes, 1976).

Several important recent surveys have sought to examine the attitudes of managers associated with their companies' social programs. One of the broadest is that of Sturdivant and Ginter, who surveyed the attitudes of 130 managers in 23 companies about 65 statements related to social attitudes. They correlated these statements with evaluations made by Moskowitz (1974a, 1974b; 1975) of which companies were most and least socially responsible and concluded that, with a few exceptions, there was a close correlation between managers having broad or liberal attitudes with respect to business and social issues and the social performance of their companies (1977).

A recent study of major mining and manufacturing companies in four states deeply involved in environmental problems resulting from energy needs—Colorado, Utah, Wyoming, and Montana—shows that the great majority regard the protection of the environment as a major concern in their business operations (Bowman, 1977). Recent surveys report that more managers are concerned with establishing stronger ethical and moral policies to govern the actions of managers in their operations (Hammaker, Horniman and Rader, 1977; Bowman, 1976).

A different type of research which might be mentioned here is direct interviews with top executives about their beliefs. The junior author of this chapter has made videotapes of approximately 15 chief executive officers of major corporations, in a continuing series, concerned with their social attitudes (to illustrate, John Steiner, 1975a, 1975c, 1975d, 1975e). A

number of these have been edited and made available in journal form (John Steiner, 1975b, 1976c, 1977b, 1977c).

Research opportunities in this area would include, of course, a continuation of the type of surveys made by Louis, Ewing, Holmes, and Bowman, noted above. These are always relevant and valuable, especially when longitudinal, as was the Holmes survey. These surveys can focus on attitudes towards profits, accepted responsibilities to different constituents, and ethical and moral standards both at home and abroad. We do not know enough today about what executives think about such matters. They are very important in executive thinking because they help to determine the nature, degree and scope of social policies.

A comparatively new area of analysis concerns the antipathy towards business and the formulation of an appropriate business response to it. Everyone knows that antipathy towards business is deep, and it is worsening. The complex causes for this phenomenon, however, are not fully understood, as the junior author has pointed out (John Steiner, 1976). Business is responding to this antipathy in many ways, but a serious question remains as to whether the response is appropriate (Sethi, 1977; John Steiner, 1977a).

Much more research in this area is urgently needed. We have no comprehensive assessment of what business is doing to combat public antipathy. We have no assessment of what measures have an impact, what programs are useless, and which activities are counterproductive. It is said, for example, that if the public were better educated in economics the result would be less antipathy towards business. Is this really true? If so, precisely what type of economic education should be directed at which segments of the population? No one knows the answer to this question.

A different approach to improved understanding between business and its academic, professorial public is the conference. We believe that this idea will expand in acceptance in the future for many reasons. If it is used to produce written summaries of proceedings it can be considered a research thrust.

What Are Individual Businesses Doing about Social Policies?

Considerable research activity has taken place in recent years with respect to specific social policies of corporations. A unique empirical study of corporate social activities was made by studying 300 randomly selected issues of *Newsweek*, *Time*, and *Business Week*; and 285 annual reports of 57 corporations for the years 1965, 1967, 1970, and 1971 (Coppock, Dierkes, Snowball and Thomas, 1972). This study showed a substantial increase in pressures upon business to undertake social programs, a growing awareness by business of these social pressures, and an increas-

ing response by business to them. The business response with respect to particular types of programs varied somewhat with the social pressures for action. During the years surveyed a total of 1,963 different issues were reported. The reporting of self-defined fields of social action showed a very large increase during the period surveyed.

Corson and Steiner (1974) sent a questionnaire to 750 companies concerning their social programs and received responses from 284 of them. In this survey respondents were asked whether they had made any significant commitments of money and/or personal time in 58 activities covering ten fields of social responsibility. The results showed a surprisingly large commitment to most programs. The two programs receiving the most attention were, first, "ensuring employment and advancement opportunities for minorities," (244 responses); and, second, "direct financial aid to schools, including scholarships, grants, and tuition refunds," (238 responses). Even the programs receiving the least attention were far from neglected. The lowest was: "designing programs to enhance the effectiveness of the civil service," (22 responses). The next was "encouraging adoption of open-housing ordinances," (31 responses).

Another broad comparative survey which should be mentioned is that of Buehler and Shetty. They studied 232 major corporations, from among the *Fortune* 500, to determine how and to what extent they are involved in social programs. This research indicated that the greatest involvement in social programs concerned quality control to meet consumer expectations, antipollution activities, and employment and training. Motivations for social programs were probed and the conclusion was that enlightened self-interest was the most important motive for social action in urban and consumer affairs. The study also analyzed implementation problems, the results of which will be noted later (1975, 1976).

A number of descriptive and analytical studies of particular industries and particular programs have been made. For instance, the Council on Economic Priorities has prepared in-depth analyses of the experience of paper companies with pollution programs (1972); safety, efficacy, and research productivity in the pharmaceutical industry (1973); antipollution programs in the steel industry (1973); product safety and the cost of credit in the retail industry (1974); and minorities and women in the retail industry (1974). Henry examined the policies of 49 companies and found that 38 had a formal written policy on environmental protection (1972).

Several scholars have addressed themselves to case analyses of the employment and promotion of minorities in specific banks (e.g., Corwin, 1970; Thieblot, 1970). A number of scholars have made cases and analyses of social policies of specific companies. Sethi, for example, has made extensive library research analyses of social programs of companies such as the Pacific Gas & Electric Company's (San Francisco) problems

with the construction of a nuclear power plant at Bodega Bay; the Eastman Kodak's conflicts with minority groups; and Crown Zellerbach Corporation's policy with respect to equal employment opportunity regulations under the Civil Rights Act of 1964 (1974b).

Opportunities for comparative research have not gone unnoticed. Preston, Rey, and Dierkes compared social policies of companies in Germany, France, and Canada, as revealed in three separate major studies, with results of the Corson and Steiner study, noted above, for the United States. They concluded that there were some important similarities among the three countries and with the United States but that there were also important differences. This type of study should be useful to companies in these countries considering new—or reevaluation of old—social policies.

A different comparative approach is that of Baker, who examined management strategies and policies related to social responsibility and company identity among six large companies, all of which were highly oriented to consumer products. The companies were Ashland Oil and Refining, Standard Oil of Ohio, General Electric, Proctor and Gamble, Kroger, and Federated Department Stores. Each differed from the others, but a comparison of them provided guidelines for other companies (1973).

Research opportunities abound in comparative analysis of aggregate survey data. For instance, Parket and Eilbirt (1975) surveyed 96 corporations and came to such conclusions as the following: company size is positively related to social responsiveness; companies undertaking social programs want their activities known; stockholders of large companies do not object to their companies undertaking social programs; and the firms studied indicated intentions to continue their social programs. They also investigated the relationships between profits and social responsibility and concluded that those respondents that were considered to be the most socially active were also the most profitable. We shall return to this issue.

There is no doubt about the fact that we need much more descriptive and analytical information about the social programs of corporations. The research possibilities in this area are enormous. To illustrate, we need hard information to answer such questions as the following: Precisely which social programs are being pursued and with what intensity in which industries and among which companies? How does this activity compare with the past? What useful comparisons can be made among companies in the same industry, and among industries? How does experience in the United States compare with that in other countries? Is public pressure for social programs increasing, receding, or about the same? Comparative research results are helpful in understanding better what is going on; furthermore, this type of research is very useful for managers in establishing norms in areas where our theory is weak.

The research methodologies most likely to yield useful results in this area probably are survey questionnaires, field research through interviews, small conferences, or bibliographic analysis (of annual reports and reports in newspapers and magazines).

This area of analysis leads directly into questions associated with institutionalizing the social point of view in the decision making process. This subject, therefore, will be addressed next.

*What Are Corporations Doing
to Formulate and Implement Social Policy?*

Once top managers decide that their company has social obligations, they then must address themselves, if they are serious about the matter, to the identification of which social actions they will undertake and of how they will make sure that their policies are implemented. This is a process about which we have some valuable research, but not enough in light of the importance of the issue.

The identification of which social issues to address is a subject upon which too little research has been done. Ian Wilson of General Electric, as noted previously, has done pioneering work in the area of identifying constituent interest which ought to be considered in setting social policy. His research was based upon in-depth interviews with various constituents, analysis of general, evolving, social trends and attitudes, reading the works of opinion leaders, and cross-impact analysis (1974).

Corson and Steiner in their survey found that a large number of companies (15 out of 254) undertook a social audit "to identify those social programs which the company feels it ought to be pursuing" (1974:33).

Not much research has been done on the overall process of institutionalizing social policy in the decision making process. One valuable contribution is that of Blake (1974) who, on the basis of empirical observation, set forth guidelines for managing the corporate social policy process. The senior author also, on the basis of empirical observation, has described what a number of companies have done to identify and implement social policy (Chapter 11, 1975a; 1975b).

Among the valuable studies concerning organizing to implement social policies the following are noted. Eilbirt and Parket sent questionnaires to 400 firms randomly selected from 798 in *Forbes'* roster of the country's largest corporations. From the responses they found that the position of an officer responsible for corporate social responsibility, first generally established in 1968, had by 1973 ranked high in standing in the company and that the person holding the position usually reports directly to the chief executive officer (1973).

Lovdal, Bauer, and Treverton found that many major corporations

have public responsibility committees. They believe the idea of such a committee is sound but that most companies are surviving without such a committee. They believe also that such committees are today in a formative state and that, because of their potential value, they will grow in usage. From their research of what such committees now do they have prepared a "Working Guide" of appropriate questions for public responsibility committee members covering ten basic areas of corporate activity (1977).

As with any new policy the managers of corporations are having problems in assuring the proper implementation of new social policies. Ackerman has examined this problem in great depth in two large companies in connection with policies in two areas, namely, environmental pollution controls and equal employment opportunity. He conducted interviews over a number of years with managers, paying special attention to specialists who were responsible for implementing policies, and examined all pertinent documentation in the companies. He called this "process research," in that it was an attempt to understand how specific decisions involving social issues were made. We can also note that the research methodology was descriptive field study. This type of research, as Ackerman notes, has distinct advantages in dealing with complex, messy, and unstructured phenomena such as those involved in implementing major social policies. Among other things, Ackerman concluded that the implementation process goes through distinct stages and can take from 6 to 8 years for full and satisfactory implementation (1975). A short version of the results was published in the *Harvard Business Review* (1973). In a field study of two commercial banks Murray corroborated Ackerman's major conclusions about the problem of implementation (1976).

There has been a great deal written in the general management and policy literature about the problems of identifying, evaluating, and implementing strategy (Steiner and Miner, 1977). Much of this is applicable to social policy and strategy, but not much research has been devoted directly to social policy/strategy formulation and implementation. Thus, great research opportunities exist in this area.

Such researchable questions as the following come to mind: How do companies identify social policies to implement? How can top management best go about identifying which social policies the company ought to pursue voluntarily? What problems present themselves when a company seeks to establish policy for government-mandated social programs? Do such problems differ among companies because of size, relationships with government, relationships with the public, type of problem, efficiency of production, or other factors? What are the preferred organizational requirements to implement different types of social policies? What major

factors impede the effective implementation of different types of social policies? Are some social policies easier to implement than others? To what extent is implementation of social policy supervised by public relations departments? Should public relations departments be involved in the formulation of social policies? If so, how much and in what areas? Are there major differences between the implementation of a self-defined and self-imposed social policy and that of one mandated by government? (See Morse, 1975, for an empirical field study of this question.) Here, as elsewhere in this area, comparative research about questions such as these can be valuable to both practitioners and scholarly observers.

Social policies for multinational corporations may be the subject of special studies. What should be the social policy of MNCs with respect to host countries? How should policies differ among host countries? Should MNCs adopt ethical codes of conduct governing foreign payments? (Jacoby, Nehemkis, and Eells, 1977; Schollhammer, 1977). Detailed studies can be made with respect to other specific policies such as hiring foreign nationals, using profits in host countries, transferring technology, conformance with local law and custom, and so on.

Another cut at the research potential concerns specific functional areas. For instance, one can study with profit different social policies concerned with consumers, employees, customers, labor unions, advertising, research and development, disclosure, and so on.

*Should Corporations Make and Publish
Social Audits of Their Social Policies and Programs?*

A few years ago there was widespread discussion in the business, academic, and governmental worlds about the social audit. The social audit generally referred to a report accounting for social programs in a manner somewhat like that of the financial report.

There was a flurry of articles dealing with the subject, as well as a number of books, the best known of which were, in order of their appearance: *The Corporate Social Audit* by Bauer and Fenn (1972); *Measuring Business' Social Performance: The Corporate Social Audit*, by Corson and Steiner; *the Social Audit*, by Abt (1977); and *Social Auditing* by Bale, Frederick, and Myers (1976). These books are descriptive of what was being done and what might and should be done. They deal with a variety of problems associated with the social audit and present different prescriptions for making a social audit.

During the past few years the burning questions of the late 1960s and early 1970s with respect to business social responsibilities in general and the social audit in particular have receded into the background as economic issues have moved front and center. It is altogether likely,

however, that with more prosperous economic conditions these social issues will once again become of greater concern. If so, many of the unanswered questions about the business social audit will be raised once again.

Questions such as the following come to mind: What are corporations doing that might be called a social audit? What different types of social audit can be identified? What are the merits of each type? Should social audits be made public? If so, why? If not, why not? What are the basic purposes of a social audit? What types of social audit are most feasible for corporations? If social audits are to be made public, is it necessary to be able to measure performance so that evaluations and comparisons can be made? If so, what measurements are feasible? Can reliable cost/benefit analyses of social programs be made? Should an effort be made to link social performance and traditional financial performance? Should the government make mandatory standard social performance reporting? If so, what standards should be met? This question comes up, among other things, in connection with research on social indicators (e.g., Environmental Protection Agency, 1973). This, in turn, opens up a wide range of questions concerning the quality of life, which business social policy should address.

What is the Relationship between Profit and Social Policy?

In classical economic theory the role of a manager is to maximize stockholder wealth in the short-run. Social policies that do not further this objective are to be rejected. This ideology is held by many businessmen and academic scholars.

The first major break with this philosophy took place in the late 1920s and early 1930s when managers of very large corporations developed the idea that they were not responsible to stockholders only but had obligations to others who had an interest in the enterprise, such as employees, customers, the community generally, and so on. They reasoned that their responsibility was to balance these interests in such a way that the long-range profits of the organization would be maximized.

Another major break with classical economic theory has taken place recently, as noted above. It is the idea that managers do have social responsibilities which they may be obligated to discharge even though doing so might reduce profits. There is no consensus about the meaning of this idea or what the relationship between profits and social policies ought to be. Different views are held. One is that whatever is done should result in higher than otherwise long-range profits. Another is that managers may justify reducing profit because of social actions in the short-run but that this is not justified in the long run. It is also argued that a corporation

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should make satisfactory profits first, and then, perhaps, consider social policies. Another view is that profit objectives are intertwined with social policy and are mutually supportive. The senior author has hypothesized that:

An appropriate blending of the social and economic performance of business will strengthen each and permit business to respond much better to the aspirations of people for a better life. . . . Corporations must pursue social goals as well as traditional economic objectives. Many see an inconsistency and conflict between these two roles, but corporations are demonstrating that the two roles can complement one another. The great challenge ahead for managers of corporations is to establish policies and programs which will pursue both economic and social goals which will be mutually supportive. (1975)

We continue to believe these propositions are valid, although the evidence is somewhat spotty. Logically it can be argued that, in general, those companies with the better profit record are those with the better quality of management. If this is so, one might expect that such managers would have a better than average concept of what social policies are most appropriate for their companies and how they can be implemented most efficiently and effectively. Statistical evidence for this conclusion, however, is not clear.

One major problem of research on this subject concerns a classification of which companies are most socially responsible and which are least socially minded. Moskowitz periodically makes such evaluations, but his listings are not documented sufficiently to achieve wide consensus (1974a, 1974b, 1975). Nevertheless several scholars have taken the listings and correlated his social performance evaluations with financial performance.

Vance examined the profit-social policy relationship in terms of percent change in common stock price per share and concluded that those companies rated socially responsible were not good investment risks since they performed worse than companies not rated high in social performance (1975). On the other hand, Sturdivant and Ginter took 67 firms identified by Moskowitz as being highly responsible and divided them into four groups: petrochemical, industrial, retailing, and nondurable consumer goods. They found that the growth rate in earnings per share from 1964 to 1974 revealed that the higher-socially-ranked firms were more profitable than the lower-ranked firms (1976).

Other scholars have discovered a positive relationship between profitability and social performance. Bragdon and Marlin, for instance, found those paper companies with favorable pollution performance to be most profitable (1972). Bowman and Haire studied 82 companies in the food

processing industry and concluded that those companies with a "medium" level of social responsiveness were more profitable than either the "high" or the "low" performance companies (1976).

Fogler and Nutt studied nine paper companies criticized in a highly publicized pollution study to see if information about environmental pollution had a discernable impact on the market value of these companies' shares during the period of time the pollution study was in the media. They found no relationship between pollution ratings and mutual fund purchases or stock prices. They concluded that there was no evidence of the existence of socially conscious investors who might reduce the demand (and therefore the price) for the stock of irresponsible companies (1975).

It does appear both logically and statistically that social responsiveness and profitability are related. Why this is so is not clear. Nor is the degree of relationship with respect to particular companies in particular industries and with particular degrees of social performance very clear. A good bit of research remains to be done in this area.

What May Be the Nature and Scope of Future Business Social Policies?

In recent years there has been much interest in probing the future. We have seen no future research that focuses solely on business social policies, but this subject has been included in other studies. For instance Paluszek surveyed 4,820 corporate presidents and got back 644 usable replies concerning their views about the business-society relationship for the period 1975 to 2000 (1976). Udell, Laczniak, and Lusch received 147 responses from executives in *Fortune* 500 companies about their views of the future, among which were a variety of social issues (1976).

A useful research program could be developed from the Delphi technique to speculate on the nature and scope of future business social policies. Such a study could be conducted at high levels of abstraction or deal with very specific policies and programs. Questionnaire surveys and philosophical speculation also, of course, can produce provocative research in this area.

What are the Boundaries to Business Assumption of Social Programs?

We are reluctant to leave this subject without commenting on the boundaries and limitations of business social programs. We shall mention only the fact that it is a part of the area covered in this chapter, but its dimensions move into the broader area of public policy which is beyond the scope of this chapter. It is a very important subject for research. A good bit of research has been done recently on the impact of particular

pieces of legislation on corporate profits and productivity. Edmunds has set forth a number of "unifying concepts" about the boundaries of social responsibility and the usefulness of social cost/benefit information in the public policy making process (Edmunds 1977). Great opportunities exist for valuable and significant new research in this area.

*Public Social Policy
and Business Social Policy*

As noted in the introduction we have not included in our review any references to public social policy research as it affects business social policy, or vice versa. However, it seems appropriate to note this area of confluence here and some broad dimensions of potentially valuable research. (We shall not, however, cite references to past and current published research in the area.)

To illustrate, there are many researchable questions in the study of the processes through which public social policies are formulated and the ways that these processes influence business social policy. For example, what are the basic policy formulation processes? To what extent should business become involved in the public social policy formulation processes? To what extent should business become involved in the public social policy formulation process? At what points in the policy formulation process can business have the most important influence?

In recent years there has been put on the statute books a veritable mountain of legislation mandating social programs in businesses. The impact of these regulations is wide and deep and offers major opportunities for research. As an illustration: How effective has been the implementation of equal opportunity public policy by our major business corporations? Has public social policy served to make corporations more or less efficient? To what extent has public social policy affected the way in which corporations are governed?

Research into the consequences of possible future legislation is interesting and potentially valuable in policy formulation and implementation. For example, there have been suggestions made recently that the United States prepare a national aggregate economic flow. A national aggregate economic plan will, of course, have a social impact. Aside from the desirability of our establishing a national aggregate economic planning system, which is a highly debatable question, many important questions arise with respect to business social policy. For instance, what possible impacts will national planning have on business social policy? Is it possible to identify undesirable impacts and avoid them? If we develop national aggregate economic planning, to what extent will business become involved in the process? Is it possible that the planning process may be

dominated by business? On the other hand, is it likely that such a planning process may, as claimed by some observers, result in the domination and control of business by government?

*Concluding Comments about Research Accomplishments,
Research Opportunities, and Research Methodology*

Although the research referred to in this chapter is only illustrative, and not generously illustrative, at that, of all that has been done in the field, there are a few general comments which we believe can be made.

First, the volume of research in the field of business social policy is impressive and growing. While we believe that the quality generally is improving there is still too much literature which is polemic at worst and unashamedly scolding of businessmen at best.

Second, there is far too little research in the field to provide the degree of understanding needed about major issues in the area and to serve as the underpinning to needed theory in the field.

Third, it follows from this observation that there are great opportunities for researchers in the field. We have done little more than scratch the surface of possible topics for research. We have not tried to translate our questions for research into hypotheses, but that should not be too difficult in most instances. One useful piece of research built on the present chapter would be that of expanding the questions for research and developing significant hypotheses for testing (Edmunds, 1977).

Now, what can be concluded about research methodologies?

First, a wide range of methodologies has been employed in pursuing research in the field. Many of them have been noted in the second chapter, but not all. A full listing would include the following, in alphabetical order: analytical, comparative, conferences, descriptive, dialogues, disciplinary, empirical, evaluative, field, futures, historical, interdisciplinary, interpretive, interview, legal precedent, library, literature survey, longitudinal, model building, normative operational, philosophical, prescriptive, qualitative, quantitative, speculative, synthesizing, systems analysis, and team. Many of these are quite comparable, and they overlap. Specific tools for empirical research in the field would include the following: attitudinal testing devices, comparative analysis, conferences, content analysis, cost/benefit analysis, cross/impact analysis, Delphi, interviews, multidimensional scaling, research seminars, scenarios, simulation, and survey questionnaires.

The power of methodologies and tools will vary, of course, with the subject of the research. For some hypothesis testing, the best research will be philosophical speculation. For other hypothesis testing, the best results will be achieved with the collection and analysis of specific num-

bers derived through questionnaires. Generally speaking, we believe that a major research thrust ought to be in the development of descriptive materials about actual operational experience in business. We have great need for field research. We do not wish to downgrade, however, the importance of philosophical speculation in this field. That, too, is very important.

One final point may be made concerning research. In this area it is possible, and often desirable, to conduct the research with a particular disciplinary orientation. The orientation can be, for example, economics, history, law, philosophy, political science, sociology, theology, or management. All orientations can contribute to knowledge in this field. We believe, however, that all disciplines relevant to a particular issue ought to be properly represented. Business social policy is, of course, of major concern to managers of business, and one thrust ought to be to help them formulate better social policies and implement them more effectively. Generally speaking, a managerial orientation would be most likely to do this. We recognize, too, that scholars of different disciplines have a deep interest in the formulation and implementation of business social policy, and they are justified in orienting their research to their respective disciplines.

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GOVERNMENT REGULATION: PROCESS AND SUBSTANTIVE IMPACTS

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Corporate voluntarism and corporate regulation have created different schools of research into the impacts of the corporation on society. In this paper the present ideological split in the study of government regulation is analyzed in terms of the elitist-egalitarian dichotomy. A model of the government's regulatory role over business emerging out of the earlier government promotion function is then described. Subsequently, three instruments of regulation are discussed: regulation of and by the professions, regulation through commissions which operate through their associated consensus networks, and regulation through initiative networks.

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Consensus and initiative networks are contrasted and discussed. The paper closes with a section on future research into the subject of government regulation of business.

CORPORATE IMPACTS ON SOCIETY

General analysis of corporate social impacts in recent years has featured both the main theme of corporate social responsibility and the special topics of consumerism and environmentalism. Interest in corporate social responsibility was largely a product of the 1960s and caused some serious reflection in the corporate sector, with some attempts at developing some standards of accountability. These attempts, nevertheless, are still in infancy. Other resulting phenomena were the appointment of minority representation—albeit token—on boards of directors of some major corporations, formation of industry groups to consider standards of corporate social accountability, and the support of research into the subject.

More significant aspects of concern with corporate social impact of the last fifteen years have been the consumerism and environmental movements. Whereas the enthusiasts of corporate social responsibility contemplated voluntary corporate action, the consumer and environmental movements attempted to force changes in responsibilities and in public policy through the law. The effects of these movements are more conspicuous, and, therefore, probably more effective in altering corporate behavior. The formation of the Consumer Product Safety Commission, the Environmental Protection Agency, and the citizens' groups like Common Cause have changed the institutional structure of public policy formation by reducing the autonomy of corporate manufacturing and product decisions. The existing social system's legitimation process and standards have remained intact, however. The debate has been over the distribution of authority, facilities, and rewards, and not about the fundamental legitimacy of the system itself, which, as Smelser (1962) indicated in his analysis of collective behavior, means that the issue is not at crisis levels. Coming as they have within the system so to speak, neither the corporate responsibility movement, in general, nor the consumer and environmental movements, in particular, have posed radical challenges to the existing system.

Corporate autonomy was challenged in the social responsibility, consumer, and environmental areas because the prior institutional relationships had established *de facto* authority in the corporate sector. The voluntarist mode of the corporate social responsibility movement generated expectedly diversified corporate responses, none involving significant reductions in corporate autonomy. The forcing mode of the consumer-

environmentalist movement did reduce corporate autonomy, however, producing a formal legal adversary structure for the resolution of some issues via the traditional mode of regulation.

Scholarship on government-business relationships has featured different approaches over the last hundred years. Prior to and during the progressive era, scholars and public officials split into camps either for or against regulation in the public interest, a nebulous concept capable of infinite definitional variations. Following World War I and into the 1950s, public regulation of business settled into a comfortable mold in which it was assumed, generally, that both state and federal regulation through commissions could prevent natural monopolies like utilities from exacting monopoly profits from consumers. Also, it was assumed that the costs of regulation did not outweigh its benefits. Both of these assumptions have been challenged increasingly during the past fifteen years, especially by Chicago-school adherents (Trebing, 1976) in the areas of economics. Other social scientists besides economists have been concerned with government-business relations as well, and a good deal of the ensuing scholarship and debate has centered on ideological considerations. The ideological aspects of the debate have concerned the attitudes of the government and business participants in regulatory activities, and, as Mannheim (1936) so accurately pointed out, it has been difficult for many of the involved scholars to keep neutral their own ideological preferences. The result has been to inject some conceptual confusion into the theoretical aspects of the present debate. Another reason for the confusion over ideological questions has been the failure of many students of the subject to adequately appreciate the historical and social evolution of contemporary government-business relations in the United States. The following sections discuss the theories of regulation, the actual evolution of regulation in the United States, and the legitimation of that regulation.

Theories of Social Organization— Elitists vs. Egalitarians

Competing ideological paradigms linked to very general theories have emerged from the various social science disciplines to explain the social order and the organization of institutions involved in government regulation. The competition is between the elitist versus the egalitarian paradigms, which are rather comparable in the disciplines of sociology, political science, history, law, and economics. In a broad sense, the elitist paradigm is the Marxian conception of the control of society by the holders of property and power. The egalitarian paradigm appears in various dresses, but focuses on the belief that, in the long run, social institutions are the product of the popular will, rather than the product of special interests. Both the elitist and the egalitarian notions are mirrored in the

scholarship that has been devoted to the study of government regulation. These regulatory area applications of more general theories may be considered middle-range theories in Merton's sense (1968) in that they attempt to explain major social phenomena, but not global phenomena.

In sociology, Marx, of course, remains the fundamental expounder of elitist theory, focusing on interests, class structure and class conflict, eventual revolution, and the formation of a classless, but not leaderless, society. On the other hand, Parsons (1951) presented the most elegant, grandly conceived, conceptual framework for analyzing social relations since Marx. Parsons depicted the social system as sets of interrelated subsystems, with boundaries and exchanges, and constrained by questions of limits and legitimacy. Institutions exceeding their legitimate roles, for example, are presumed to be punished by the larger society which will revoke the offender's license. This egalitarian aspect of Parsons' philosophy has evoked opposition from Marxist and elitist scholars like Mills (1956), whose work on what he called the "Power Elite" brought a sharp rebuff from Parsons (1957). Gouldner (1970) questioned the usefulness of Parsonian sociology, partly on the basis of a more elitist outlook.

Other social sciences display the egalitarian-elitist paradigm split in different forms. In political science, the debate has been between the pluralists and their critics (Bentley, 1908; Truman, 1951; Lowi, 1966). History reflects the revisionist versus the liberal perspective with Kolko (1963; 1965) leading the Marxist camp and other scholars like Hays (1957; 1965) and Hofstadter (1955) oriented more towards seeing a consensus reached by opposing forces. In law, the realists amended the previous positivist philosophy (Pound, 1942; Levi, 1948; Ehrenzweig, 1971). In economics, recent research has rejected the previous public interest regulatory model in favor of a more cynical view of the economic influence of the regulatee. Averch and Johnson (1962) formulated a seminal mathematical approach to explaining why utilities under regulation had an incentive to overcapitalize—a proposition already abundantly clear to those acquainted with regulatory accounting conventions and revenue determinations under commission regulation. Yet the Averch-Johnson paper focused economists' attention on the subject and sparked a spate of other papers (Baumol & Klevorick, 1970) testing their hypothesis. Coase (1959) wrote an important critique of the Federal Communications Commission that influenced subsequent scholarship. Baran and Sweezy (1966) continued along recognizable Marxian lines, and the noted University of Chicago economist George J. Stigler (1971) took a charming Marxian position—perhaps unwittingly—in explaining the regulatory process as administered by the federal authorities.

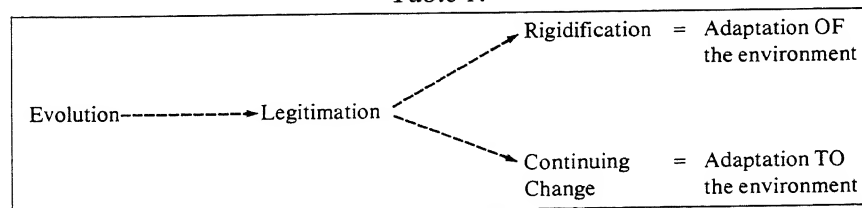
Both elitists and egalitarians view the same facts, of course, but the

selection of facts and the constructions placed upon them are highly subjective. To the extent that the elitist-egalitarian split is based—either consciously or unconsciously—on ideological differences, the split is irreconcilable, because either the elitist or the egalitarian paradigm can be made to force-fit the observation of an integrated social system in a state of structural equilibrium. Precisely *that* has happened in the area of government regulation. A considerable amount of conceptual confusion has resulted from the failure to recognize that the ideological preferences of the observers were obscuring some of the repetitive processes in the regulatory arena—that some regulatory results were, or at least could be, the result of interorganizational structures and psychological processes, rather than political or economic processes. The key is whether the interorganizational structure had become too rigid to permit further change.

A Model of Government Regulation of Business

As with other nations, development of a unique social system with a special relationship of government to business in the United States evolved partly from deliberate choice and manipulation, and partly from random chance. The combination of choice and chance provides a unique system at any one point, with the real issue being whether the system is capable of change or whether it has rigidified into a self-perpetuating institutional and class-structured framework. The model of the government-business process is as follows:

Table 1.



Given the evolution and legitimation paths of the government-business interrelationship, two alternatives become possible: Will the system be rigid and non-changing, and thus attempt to adapt the environment to its purposes? Or, will it have the built-in flexibility to change, and thus adapt to a changing environment? There is no consensus on this point regarding the United States business-government system; yet, the point is of crucial importance.

Decisions on public policy are made by government and/or business. For the most part, the great mass of individuals play passive roles. Con-

sumers have been the beneficiaries, for good or bad, of decisions made by the corporate sector. As industrialization, specialization, and concentration progressed, decisions made by business impacted more powerfully on the society. Out of the needs for coordination and control arose the patterns of regulation developed during the last hundred years. The main concern of recent scholarship has been with a revaluation of the effects and dynamics of government-business interaction.

Emerging from the antimercantilist ethos of the Revolutionary War, the 1789 Constitution institutionalized a limited government capacity for interfering with business, protection for private property and entrepreneurship, and a support role for the government in providing transportation and communication facilities. Hamilton's plans for establishing national credit and commerce were effective, on the whole, and threshold support programs for business, like the tariffs, provided some new opportunities for business development. In short, there was a clear role for government in promoting the business interests of the nation. Prior to the period of industrialization following the end of the Civil War in 1865, business in the United States went through the stages of preparing for the industrialization that was to follow by developing the supports of entrepreneurship and legal-institutional forms.

Social-structural conditions necessary to industrialization include entrepreneurs free to act with ready access to available knowledge. In the pre-Civil War period, finance, commercial paper markets, insurance, stock exchanges, better accounting, and trade and service specializations appeared, supporting the technology when it appeared subsequently (Cochran, 1974). The growing prosperity of the merchant-commercial class supported, in turn, their demands for greater freedom of organization, demands that resulted in the free-banking and general-incorporation laws which permitted anyone to engage in business activities as long as they met general, and usually minimal, state requirements. Similarly, other legal conditions were met that established the basis for a "release of energy" (Hurst, 1956) in the nineteenth-century United States. Monopoly grants such as bridge charters were to be narrowly construed against the grantee (11 Peters 420—*The Charles River Bridge* case of 1837) and corporations chartered in one state would have to be honored to do business in other states (13 Peters 519—*Bank of Augusta v. Earle*, 1839).

Following the Civil War, the Supreme Court, then ideologically oriented toward a powerful business class, permitted the due process clause of the fourteenth amendment (1868) to be construed as to apply to corporations, which made it harder for states to regulate business enterprises. A little later the Supreme Court invented the substantive due process interpretation of the Constitution which invoked a protection of

economic interests that foiled attempts by the states to regulate areas of business activity like hours of labor and children's working conditions (Hacker, 1970, pp. 198–204).

Granted even the wide latitude by state laws and Supreme Court interpretations, business nevertheless was constrained by the continuation of the common law's general intolerance of monopoly and price fixing. Because the post-Civil War period featured rapid expansion of industry and marketing, overexpansion in many industries took place, bringing about pressure to rationalize production and control markets. After trial runs through gentlemen's agreements and pools to accomplish the above objectives, attorney Samuel C. T. Dodd developed the idea of the trust, as first used by the Standard Oil Trust of 1879 (Krooss & Gilbert, 1972, pp. 181–186). Owners gave up control of their properties in exchange for certificates of trust representing a proportionate share in the trust property, which then permitted the trustees to accomplish the objectives of rationalization and market control. If permitted to stand, the use of the trust device would have permitted extraordinary concentration of industrial activity in the United States. Compounding the problem was the fact that in some industrial areas, particularly where "natural" monopolies like utilities were involved, there was a rational concern that although monopoly fostered consumer exploitation, duplication of facilities encouraged waste of resources. The resulting resolution was to place the utilities, by and large, under the control of the new commissions, and to leave control of the behavior of the industrial firms to the operation of general laws under the administration of the executive agencies and the courts.

The development of the regulatory commissions occurred because of the need for a new form of government–business interaction in the latter part of the nineteenth century. By that time, the legal and political relations between the corporations and the government had been largely formed, and this resulted in significant constraints being placed upon the operating functions and authorities of the commissions. As a result, the commissions were fated to follow their regulatees, rather than lead them. The pedestrian performance of the commissions can be explained in terms of their interorganizational relations with other institutions. Expansion of government–business relations in the United States led to the extensive use of the commission form, but the older mode of government involvement with business through executive agencies was also expanded to meet the requirements of a differentiating, complex society. Concomitantly, there developed in the United States specialized professional groups that assumed increasingly influential positions in the government–business regulatory process.

REGULATION OF AND BY THE PROFESSIONS

Standing somewhere between government and business in the United States are the professions which exercise important controls over the path of government-business interaction. The professions are themselves instruments and formulators of public policy, exercising in many cases legitimated authorities delegated by the government, taking the form of self-regulation and participation in, and in some cases control of, important government functions. The most intensive analyses of the professions have been made by sociologists. Some studies have also been done by economists who have been interested primarily in the exclusionary effects of licensure agreements and professional restrictions on entry. Relatively few studies outside of those devoted to examining the medical services area, however, have focused on the specific processes through which the professions participate in regulatory activities, which represents a serious gap in information about regulatory processes in the United States.

At the threshold level a distinction must be made between occupational groups like beauticians, truck drivers, etc., which exercise some control over entry, and professional groups like lawyers, accountants and doctors, which also exercise controls over entry, but which more importantly participate in the regulatory process in the United States in concerns beyond their particular employment. In that latter sense, the professions of lawyers and accountants are most important. The lawyers dominate the legislative process, either as congressmen, as congressional aides, as judges, or as private lawyers advising business firms and individuals. Traditionally, lawyers have exercised tight control over their own profession, but recent inroads have been made against that control because of successful antitrust challenges to restrictions over standard fees, advertising, and bar examinations. Nevertheless, the American Bar Association, the largest national association of lawyers, has an important quasi-governmental role in submitting recommendations on candidates for important governmental functions like the Supreme Court, or in undertaking special investigations on regulatory topics, like the American Bar Association's report on the Federal Trade Commission (American Bar Association, 1969). In spite of their crucial role, relatively little rigorous analysis has been done on the substantive impact of the regulatory process activities performed by the legal profession.

Attention devoted to the accounting profession has been relatively limited as well. This author completed an analysis of the relation of the accounting profession to their clients and to the Securities and Exchange Commission in the development of the rules for corporate financial reporting (Chatov, 1975). That analysis helped precipitate a Senate subcommit-

tee Staff report on the accounting establishment and investigatory hearings the following year (United States Senate Subcommittee on Reports, Accounting and Management, 1976; 1977). These combined materials reveal some important insights into what may be a typical process of government regulation through a consensus network, in this case the Financial Reporting Consensus Network, whose main participants are the Securities and Exchange Commission as the focal point, the corporate sector, the accountants, and associated groups like the stock exchanges, segments of the legal profession, financial analysts, banks, etc.

From a regulatory process viewpoint, the important observation that can be made regarding the operation of the development of corporate financial reporting standards is the dominant role played by the accounting profession, operating primarily as the agents of their corporate clients. More predictable was the staff role played by the Securities and Exchange Commission, which permitted the accountants to take and retain the initiative in developing financial reporting conventions, regardless of how badly or how slowly the rules were made. Also interesting was the evolution of a series of rituals between the Securities and Exchange Commission and the accountants, rituals in which threats were issued by the commission, at times of public pressure over revelations of financial information failures, that if the accountants didn't act, the commission might have to do something. The response of the accountants was to protest, to put up a semblance of activity, and for the entire system to resume normal operations when the attention subsided. What revisions did occur to the system itself were more of form than of content, since successive organizations developed to create rules of financial reporting remained under private sector control, and continued to operate along familiar lines (Chatov, 1975; 1977). One wonders about the number of other areas that exist within the regulatory apparatus that involve professional groups and government agencies in which the interaction is similar, and in which formulation of regulatory functions exist substantially in private hands, but which are legitimated through government activities.

The accountant-Securities and Exchange Commission interaction typifies the regulatory process achieved through use of the commission form of regulatory administration, which is analyzed below in some detail.

THE REGULATORY COMMISSIONS

Theories about the operation of the independent regulatory commissions—both state and federal—fall into either of two categories: public interest theories, or regulatees' interest theories. The regulatees'

Table 2. Theories of Regulatory Commission Behavior

Process	Public Interest Theories	Regulatees' Interest Theories	
		A. Cooptation	B. Conspiracy
Creation	Due to public opposition to regulatee's predations	Due to public opposition to regulatee's predations	Regulatees invoke protective aegis of government to legitimate regulatee's cartel
Subsequent history	Commission continues to operate in public interest, preventing regulatees from gaining monopoly profits.	Commission eventually adopts perspective of regulatees and becomes their protector and advocate.	Commission immediately acts as regulatees' protector and advocate, following regulatees' dictates and interests.

interest theories in turn are divided into two groups: cooptation theories and conspiracy theories. The entire model is reduced to its essentials in Table 2.

The public interest theory and the conspiracy version of the regulatees' interest theory are polar. The cooptation version of the regulatees' interest theory shares the creation hypothesis with the public interest theory, but shares substantially the same subsequent history hypothesis with the conspiracy theory. For that reason, it has often been confused with both the public interest and conspiracy theories, whereas it is actually a hybrid, or, viewed another way, stands between the two.

Public Interest Theories

Simply stated, the public interest theory of regulatory commission operation is that predatory economic practices by an offending group will be opposed by the general public and/or special groups, and their combined efforts will produce legislation placing the offenders under public regulation. If the regulatory commissioners are independent and expert, the theory goes on, regulation will be to the public interest, and will be manifested in the form of (1) prices lower than those possible through unrestrained monopoly and (2) efficient use of resources which will be adequate but not duplicated. However, to be sure that the regulators themselves do not become oppressors, certain legal requirements will provide the regulatees a fair opportunity to be heard before rates are set and facilities are permitted or mandated.

The commissions were late arrivals in the federal apparatus. The first of them, the Interstate Commerce Commission (ICC), was established in 1887 on the model of prior state commissions. The ICC set the pattern for commissions which were to follow. Commissioners were presidentially

appointed, senatorially approved, and tenured in office, subject only to good behavior. The commissions are thus dependent upon both the President and Congress because of the appointment process and also because of the budgeting process. In the budget process for all the commissions except the Federal Reserve System, which obtains revenue from its member banks, the President's office forwards the requested budget to Congress for approval. This makes the commissioners particularly sensitive to congressmen in financial approval positions, as well as to congressmen in the oversight committees. Thus commission independence is definitely constrained by practical, political dependencies upon politicians. The desire to assure regulatees of legal fair play resulted in the time-consuming administrative procedures contained in the Administrative Procedures Act of 1946. Commission decisions have always been subject to review, upon appeal, by the Courts. The general absence of operational directions in the commission-enabling statutes given them flexibility in setting policies, but the absence of clear direction also makes it difficult to choose among alternative policies, and makes the commissions subject to outside influences. The commissions are also subject to great direct pressure from regulatees. Furthermore, the constant interaction with the regulatees makes it likely that the regulatees' opinions will assume considerable weight in commission decisions. As will be discussed later, the public interest theory of commission regulation does not seem to have been validated.

Cooptation Theories

Cooptation theories of commission behavior make several assumptions: that the creation of the commissions was the result of a reform movement; that the commissions' proper mission is active control over the regulatees; that the commissions failed their mission, and that the reason for failure was the regulatees' deliberate and successful strategy to first weaken the regulator and then to bring it under its influence. These assumptions reason backwards from terminal states: the operation of the commission reaching a consensus with its network institutions is observed, then a set of causal relations are posited and justified on the basis of selected evidence. The assumptions of cooptation theories do not survive testing on empirical bases, nor do they offer sufficiently explicit paradigms for dynamics.

When cooptation theories are augmented into a general theory, it suffers from the lack of explicit causal mechanisms. An elaborate cooptation theory was published by Bernstein in 1955. Bernstein's life cycle theory demonstrates the virtues and weaknesses of cooptation theories in general. The theory's virtues lie in its intuitive recognition of the cooperative mode of operation of regulatory operations. Its weaknesses derive from

the absence of detailed, specific, dynamic relations. Nevertheless, Bernstein's theory was a seminal work which set the tone for the reexamination of regulatory commissions.

The Life Cycle Theory of Commission Behavior

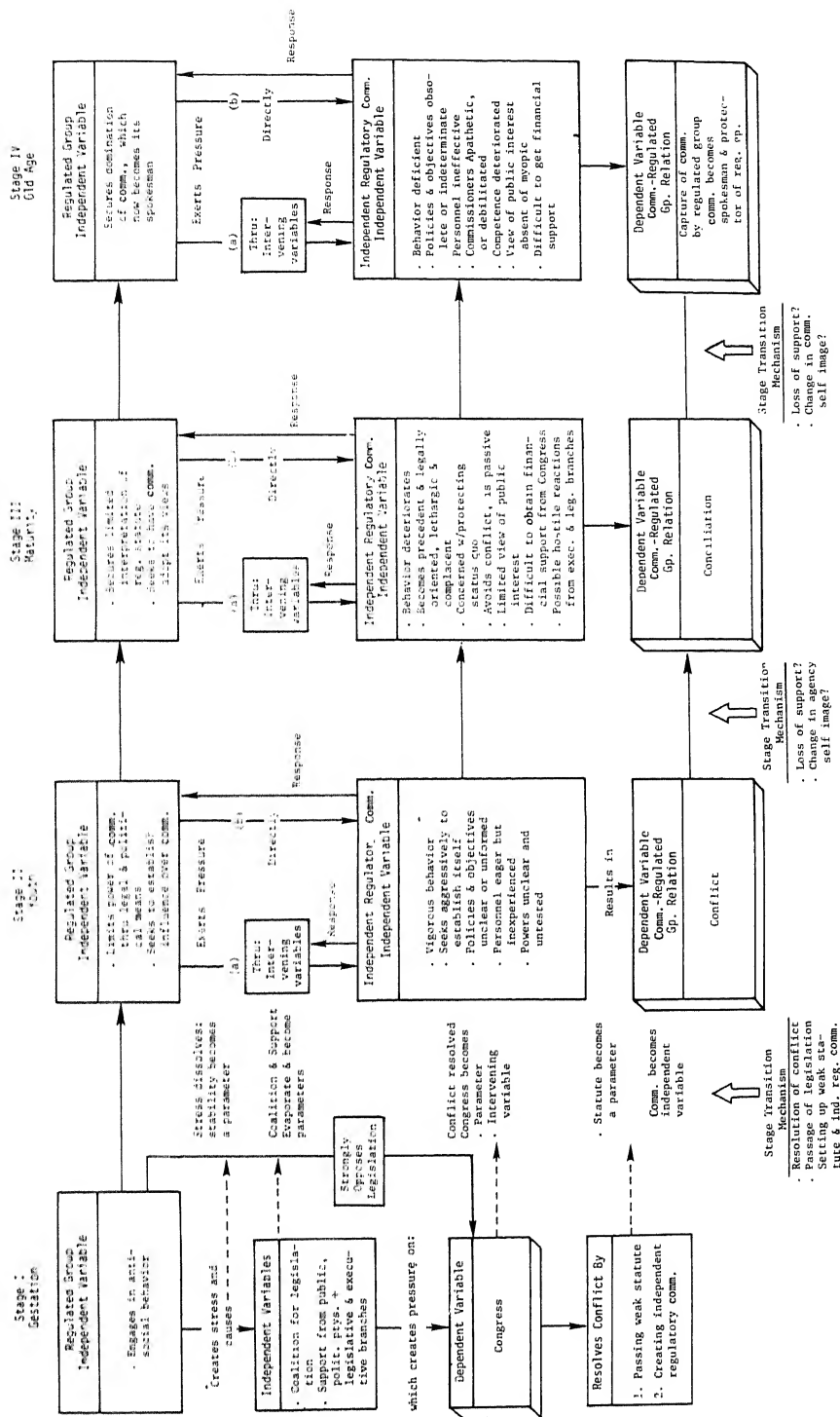
Bernstein's life cycle theory is summarized and analyzed for its explanatory properties in Table 3. The table identifies causal relations among variables, parameters, and hypotheses, and shows the relationships between the independent, dependent, and intervening variables, including indicated or assumed transition mechanisms. In state I, the dependent variable is the Congress. In succeeding stages, the dependent variable is the "complex" variable of the commission's relation to the regulatee.

The commission presumably arises from a stress situation, and the effort to reconcile opposing interests results in passage of a vague statute. In youth, the commission is aggressive, eager, and inexperienced. Hostile opponents attack the untested commission and its enabling legislation. Public attention evaporates, so does congressional support, and the commission becomes isolated. In maturity, conflict fades and cooperation is the prevailing mode as the commission adapts to its environment. The public interest is sacrificed to the regulatees' interests, the commission becomes bound by its procedures, and lethargy takes over. In old age the uncreative commission protects the regulatee, and continues to deteriorate because of its servile relationship to the regulatee. Congress notices the commission's debility and further reduces support, which produces more commission ineptitude, further sacrificing the public interest.

In terms of necessary and sufficient conditions, the transition from the gestation to youth stage is causally adequate. Stress triggers formation of coalition and support variables and the resulting conflict produces the legislation serving as transition mechanism out of gestation. Legislation must occur before a commission exists. Thereafter, the legislation and support groups become coalitions and parameters. The commission becomes an independent variable. Congress may play different roles either as a parameter, or as an independent or intervening variable. The dependent variable, the relation between the commission and its regulatees, changes from conflict through conciliation to capture in stages II through IV.

The theory is causally imprecise about the later stages in that it specifies multiple transition mechanisms—the commission's myopic view, administrative lethargy, marginal personnel, political pressure, etc. This limits the theory's predictive qualities because the dynamics appear to be cumulative, not specifically causative. Part of the theory's imprecision also stems from Bernstein's analogy to a biological model, which

Table 3. Systemic Analysis Life Cycle Theory of Independent Regulatory Commissions



prompted postulating too many stages. The absence of exact descriptions of the events presumed to trigger changes prevents theory testing, forcing one to tease the causal relations out of the theory's description. In sum, the life cycle theory represents a general behavioral description combining several widely held notions about the commissions and their regulatees. Many of these notions are also common to conspiracy theories.

Conspiracy Theories

Conspiracy theories of regulatory behavior are basically Marxian. These theories assume that the purpose of the regulatory commission is to legalize that which the holders of productive power find desirable. Because the power of the productive sector is not absolute, the conspiracy theorists reason, some disguises must be made to accomplish the desired objectives. Use of the regulatory commission then permits the regulatees to accomplish with legal authorization what they were prevented from doing previously. Given control of the commission, the regulatees-conspirators may now set prices, rationalize production, establish market divisions and routes, and control competition—thereby guaranteeing profitable operations. The total effect is one of legal cartelization.

Public Interest vs. Regulatees' Interest Theories

As indicated in Table 2, the final processes in the conspiracy and cooptation branches of the regulatees' interest theory are substantially the same—the regulatees' interests are maximized at the expense of the public. In the public interest theory, the public's interests are maximized. Contemporary comment generally supports the outcome described by the regulatees' interest theories, but the analyses of the specific processes producing the result vary.

Consistent, bitter criticisms have been directed at these regulatory bodies since their development. Kohlmeier (1969) accused the commissions of failing to protect the consumer interest, which he believed to be their primary purpose. The reasons for commission failures were: (1) isolation from the three major branches of government; (2) the difficulty of making "experts of political appointees"; (3) vulnerability to political pressure; and (4) tending to regard its regulatees as its constituency. Each commission pursued a separate course as an end in itself, without direct reference to the people, frequently conflicting with other commissions, protecting industry from the federal antitrust laws, thus making vast economic sectors subject to monopoly and price fixing.

The Federal Trade Commission has been severely criticized by the Nader Report (Cox, et al., 1969) and by the American Bar Association (1969): both found the Commission concerned with trivia, generally inefficient, and thoroughly in need of overhaul. Studies of the commissions by

the executive branch have been equally condemning (Bernstein, 1955, pp. 58–59; Kohlmeier, 1969, pp. 36–52; 266–67). Both the first and second U.S. Commissions on Organization of the Executive Branch of the Government (1949; 1955), each chaired by former President Hoover and conducted under the Truman and Eisenhower administrations respectively, concluded that inefficiency was characteristic in all the Commissions. The Landis Report (Landis, 1960) commissioned by President-elect Kennedy said that the commissions had deteriorated in quality throughout. The U.S. President's Advisory Council on Executive Organization (1971) under President Nixon recommended sweeping changes in regulatory commission organization (Noll, 1971a). Other commissions and studies with roughly similar conclusions may be cited throughout the presidential administrations from Theodore Roosevelt on. Business publications have also joined the critical consensus (Bacon & Karr, 1974; Bray, 1975; Elliott, 1974).

Economists have pointed out that the regulatory commissions perform financial services for regulatees, with negative cost–price effects on consumers. The early operations of the Interstate Commerce Commission resulted in “social losses of long-haul customers from cartel stabilization . . . approximately double the social gains of short-haul customers due to rate reduction” (Spann & Erickson, 1970, p. 243). The cost of bureaucratic machinery in the Federal Power Commission was well in excess of consumer savings (MacAvoy, 1970b, pp. 299–302), and it is clear that regulated groups attempt to control industry entry through political means (Stigler, 1971).

The crux of disagreement on federal regulatory commission behavior is not whether they serve the regulatees' interest but how and why, and comprehensive studies or review of the regulatory literature attest to that fact (Galambos, 1970; MacAvoy, 1970a; McCraw, 1975). This conclusion is supported by Selznick's (1948) examination of the relation of the Tennessee Valley Authority to its constituency, which noted that regulatory attempts to coopt the regulatees resulted in cooptation of the regulators. Chatov (1975, 1977) found the Securities and Exchange Commission playing a subservient role to the accounting profession in the development of rules governing corporate financial reporting.

These studies generally support the view that the new commissions enter established, structured networks toward which they are unable, because of their organizational design and institutional dependencies, to maintain adversary positions. The regulatory commissions become parts of networks devoted to the development of consensus positions, networks in which all institutions share a similar interest in the integrity and preservation of a common purpose. What most students of regulation have observed are these consensus networks—described more fully later—in

operation, but major disagreements exist about the dynamic mechanisms motivating network behavior.

Conflict in the Creation of Regulatory Commissions

Conflict assumptions are fundamental to the public interest theory and to the cooptation version of the regulatees' interest theory. Economic and/or class struggle between society and an offending group is postulated in those theories. The creation of the regulatory commission is presumed to be a conscious effort by society to control the private-sector offender, with the commission's purpose to control the regulatee and engage in conflict with them where necessary. The conflict assumption is questionable, however, on factual and psychological grounds.

Several instances show that commissions were not created out of society-offender conflict. Some commissions' origin came from an interindustry battle rather than a struggle among opposing interests. The Federal Reserve System resulted from economic crisis, not from unrestrained regulatee behavior. Following the panic of 1907 something had to be done to make the banking system more stable, and the Fed was a compromise between a strong versus a weak central bank system. The legislative battle was between opposing banking interests rather than reformists versus regulatees (Kolko, 1963, pp. 181-189; 217-247). When the Federal Radio Commission was created in 1927, opposing forces, in the public versus private sense, were absent. An Attorney General's 1926 ruling denied the Secretary of Commerce the authority to designate radio frequencies, station power, or broadcasting hours. This promoted free entry in air wave use which created chaos. The desperate industry demanded government controls. The big, ensuing conflict was among broadcasters about the property inherent in wave lengths and about the Radio Commission's powers (Wilcox, 1971, pp. 437-38). Similarly, much of the social stress leading to the creation of the Federal Trade Commission occurred within the business community. The 1911 Standard Oil (211 U.S. 1) and American Tobacco (211 U.S. 106) cases established the rule of reason in antitrust, thus prohibiting only unreasonable, rather than all, monopolies and restraints of trade. The decision created great uncertainty in the business community about future prosecutions under the Sherman Act. From 1911 on, the idea of a trade commission gained momentum, supported by both Progressives and Republicans in 1912. Wilson and the Democrats actively supported the clarification of antitrust laws in 1914. The alliance to support the Trade Commission included businessmen, enemies of monopoly, and federal incorporation advocates who supported the trade commission concept. Congress apparently believed the Trade Commission would be strong enough to do an adequate regulatory job (Cushman, 1941, pp. 179-181), and the principal conflict became one

over the form of regulation rather than a struggle between forces pro or con.

Some commissions grew out of conflict circumstances, but these appear to be the exceptions. Holdouts against federal regulation opposed formation of the National Mediation Board and its follower, the National Labor Relations Board. After the Pecora hearings into the 1929 crash, the Federal Trade Commission was given extensive new powers under the Securities Act of 1933, in opposition to a very vocal segment of the investment industry (Chatov, 1975; Parrish, 1970). Whether the Interstate Commerce Commission was created by or against the railroads is still debated (Kolko, 1965; Harbeson, 1967). Commissions created after World War II, like the Atomic Energy Commission, were related to resource exploitation, or to social and economic problems, like the Equal Employment Opportunity and Consumer Product Safety Commissions.

Maintaining Conflict

Psychologically it is almost impossible for individuals to maintain continuous conflict with each other. Empirically, conflict modes are rarely characteristic of a commission's interaction with its regulatees. The Federal Radio Commission accepted the previous informal arrangements developed under Hoover's Commerce Department, which had used little discretionary authority, and established rules acceptable to most radio senders. When the Radio Commission was abolished in 1934 and its powers transferred to the Federal Communications Commission, the timid commissioners "continued to operate along familiar lines" (Bernstein, 1955, p. 86).

The Federal Trade Commission was unaggressive in its early years, preferring to worry about problems of secondary concern (Henderson, 1924, p. 337). Wilson's choice of inefficient or business oriented commissioners was cited by Hofstadter (1955). Within two years of formation the Trade Commission sponsored permissive regulation similar to that originally requested by business. President Wilson believed that the Trade Commission transformed government from the antagonist to the friend of business (Wiebe, 1967), and, from the beginning, the commissioners were very sympathetic toward business (Kolko, 1963). The conservative commissioners of the Securities and Exchange Commission tried from the outset to conciliate their regulatees when the SEC replaced the Trade Commission in 1934 as administrator of the 1933 and 1934 Securities Acts (Chatov, 1975, pp. 95-132; Parrish, 1970, pp. 228-232). Thus the evidence shows almost instant cooperative responses of the commissioners toward the regulatees in the network into which they have been thrust, a pattern that is incompatible with the public interest theory's assumption of conflict in creation and subsequent functions of the commission.

Does the Public Interest Equal the Consumers' Interest?

A recurring, erroneous assumption is that the public interest equals the consumer's interest. Usually the consumer's interest is taken to be the lowest possible prices, a notion emanating from the populist conception of the purpose of regulatory commissions. The same idea persists among cooptation theorists in spite of federal regulatory experience since 1887 that demonstrates that the regulatee's interest has almost always been given paramount importance by the regulators. The early English common law gave government the authority to regulate noxious uses of private property, but the public interest and the consumer interest were never equated. Later, an American court held that something of consequence could be controlled for the common good and was therefore affected with a public interest (*Munn v. Illinois*, 1887). A subsequent extension of the doctrine permitted the regulation of industry for the public welfare if the laws were related to a proper legislative objective and were neither arbitrary nor discriminatory (*Nebbia v. New York*, 1934). Nevertheless, the public interest was not defined for every eventuality: business interests might assume first importance, as could the interests of people other than consumers. Regulated industries were always given significant price latitude to insure adequate return on investment and to encourage adequate supply. Finally, regulatory pricing has also encouraged excessive capital equipment accumulation by making plant investment the most important component of the rate base determining total revenue allowed (Averch & Johnson, 1962; Baumol & Klevorick, 1970). The persisting conviction that the public interest equals the consumer's interest cannot be defended either by law or experience, and the notion ought not to be taken seriously by students of regulatory activity.

Sanctions and Multiple Regulatees

The previous discussion reveals that few commissions were created with the mission of applying sanctions to their regulatees. Most commissions were either created to become vehicles for the legal cartelization of their regulatees or naturally drifted toward that role, which compromises the validity of the public interest theory of regulation by commission. On the other hand, it is also difficult to credit the cooptation or conspiracy theories as general cases, because most commissions have multiple, rather than single, regulatees. The greater the number of regulatees, the greater ought to be their difficulty in mounting effective conspiracy or cooptation attempts. The best necessary prior condition for conspiracy or cooptation ought to be a combination of a single regulatee operating against a commission with a sanction mission. However, that combination occurred only once—and that is debatable—in the case of the original

Interstate Commerce Commission before it was given authority over trucking in addition to the rails.

Most commissions with major economic powers now serve multiple regulatees: for example, the Federal Power Commission (FPC), now replaced by the Federal Energy Regulatory Commission, regulates electricity and natural gas; the Securities and Exchange Commission (SEC) regulates different industries and professional groups involved in corporate financial reporting and security exchanging; the Federal Trade Commission (FTC) in administering different laws oversees a large number of corporations and professions; the Interstate Commerce Commission (ICC) regulates railroads and trucking; the Federal Communications Commission (FCC) regulates radio, television, and domestic and international wire cable and radio communication. Only the Federal Reserve System (FRS) and the Civil Aeronautics Board (CAB) can be considered to serve a "single" regulated industry—and the complexity of both the air transport and banking industries make questionable even those classifications as single regulatees. Finally, the original Atomic Energy Commission (AEC) was created to develop civilian uses for atomic energy through the nuclear energy industry. As indicated in Table 4, most commissions with major economic powers were created to effect cartelization for their areas of concern, and most commissions have too many regulatees with conflicting interests to be likely candidates for cooptation or to be the victims of conspiracy.

In addition, commissions not included in Table 4, like the National Labor Relations Board (NLRB) the Equal Employment Opportunity Commission, and the Consumer Product Safety Commission, all exercise a type of sanction role, but all serve many regulatees, and all have been criticized as being slow moving, inefficient, and not particularly effective public protectors.

Inefficiency and a strong tendency to favor the regulatees may thus

Table 4. Classification of Selected Commissions by Mission and Number of Regulatees

Mission	Number of Regulatees	
	Single Industry	Multiple Industry
Sanction	ICC possibly sanction mission when created	FTC
Cartel	FCC when created FPC when created AEC CAB FRS	FCC presently FPC presently ICC presently SEC

summarize the typical observations of regulatory commission operations by a wide variety and number of observers. That these common commission operating characteristics have been interpreted as products of cooperation or conspiracy seems unreasonable, or at best, only partly true. A more defensible observation is that the commissions operate as they do because of organizational and institutional factors, and that the historical determinants in their development and their limited powers in relation to already existing networks at the time of their creation both made inevitable their mode of favoring the regulatees, the predictable attempts of the regulatees to influence the commissions notwithstanding.

REGULATORY COMMISSIONS AND CONSENSUS NETWORKS

Resort to the commission form of government-business relations was one of the institutional responses to industrialization, which, as mentioned above, first appeared in federal form with the creation of the Interstate Commerce Commission in 1887. Many groups had strong interests in the operation of the railroads. Support for a commission came from municipal reformers and from some business interests including merchants, farmers, and some oil people (Hofstadter, 1955, p. 164; Garraty, 1968, pp. 114-16). Merchants and shippers led the agitation, but farmers were a critical voting base (Hays, 1957). Even some railroad men favored the legislation, which was not seriously restrictive (Garraty, 1968; Weibe, 1967, p. 53), and, of course, Kolko (1963; 1965) argues that the railroaders were the moving forces behind the creation of the ICC because they needed the commission as a basis for legalizing their cartelization efforts. Clearly, then, the problems for business now became how to contain the new role of government as a regulator, and to convert the new regulatory groups into the old mold of business promoters.

Consensus Networks

Creation of a regulatory commission creates a new cohesion among the institutions within the previously existing network into which the commission is thrust. Attention focuses on the commission, which is in a position to coordinate and plan, and to propose legislation where necessary. The commission operates as the network's staff, and attempts to promote development of consensus positions among the members of the network. There are many groups of institutions throughout society that possess compatible interests in given objects or outcomes, and which manage to come to acceptable understandings about the possession and use of the involved resources. These can be referred to as consensus

networks. Where regulatory commissions are involved, they are properly designated as regulatory commission consensus networks. The distinguishing characteristics of these regulatory commission consensus networks can be identified as follows:

1. The compelling mode of interaction within the network is toward consensus; that is, toward a mutual agreement on the allocation of resources, a sharing of attitudes, and agreement on distribution of roles, functions, and prerogatives.
2. Interim conflicts within the consensus network will not be seriously disruptive in the long run, and will have the positive effect of affirming their interrelational commitments and common policy perspectives.
3. The institutions within the network will be aware of their alliance.

The consensus network will be interested in reaching agreement without disruptive internal divisions. This will tend to produce stable conditions within the network, resulting in its structural equilibrium, unless external pressures intervene. When a disruptive member enters the network, it will be socialized by the members of the existing system, who will try to reduce the newcomer's autonomy and will assign it a place within the network where it receives an acceptable share of the system's outputs. These dynamics are observable in several aspects of the federal government's efforts to regulate the private business sector through regulatory commissions.

Regulatory commission consensus networks revolve around the operations of the regulatory commission, and overlapping goals and identities are characteristic (McCraw, 1975). A regulatory commission consensus network includes the regulatory commission, regulatees encompassed by the enabling legislation creating the commission, and associated institutions affected by and interested in the regulatees' operations. Consumers and congressional oversight committees are important to network operation, but, because they usually do not participate directly in decision making, are not part of the network, as a general rule.

Consensus networks operate placidly and cannot tolerate aggression that prevents ultimate agreement; they harmonize, smooth differences, and thus tend to discourage the discussion and criticism necessary for a clear view of reality. Bureaucratic, consensus-type personalities thrive in such circumstances in both the public and private sector organizations involved, and the compromise that is fostered can be unfortunate because some aggression and hostility is necessary for the development of adversary procedures which can adequately thrash out complex, controversial issues. A regulatory commissioner's interest is to keep network battles from going to external theatres, and will "try exhaustingly to find

a conflict-avoiding compromise. . . ,” a process that will be accented as the commission staff attempts to keep issues from going to the commissioners (Noll, 1971, pp. 17–18). The guiding principle of the consensus network is to achieve harmony and agreement, and accordingly, the leaders of institutions belonging to consensus networks are to be expected to be consensus leaders—that is, personalities who foster compromise and agreement at the cost of reform and setting new directions (Zaleznik & Kets de Vries, 1975). Within the regulatory commission networks, consensus personality commissioners are assured by the Presidential practice of informally first attempting to clear a proposed commissioner with the regulatees to secure their advance agreement, before submitting the name to the Senate.

The structural characteristics of consensus networks produce the close relations that are characteristic observations of the interaction between regulators, regulatees, and other members of the network. The consensus networks are designed to produce cooperation, not conflict. Cooperative relations are most feasible when the commission deals with a network where there is a single major regulatee, as with the passenger airlines governed by the Civil Aeronautics Board. Where several regulatees whose interests may clash are within the authority of a commission, the battles that will erupt from time to time will be network conflicts; that is, conflicts among the regulatees, rather than conflict between regulator and regulatees. The recent experience of the Federal Power Commission in balancing the interests of the gas producers against the interests of the gas carriers is a case in point. Consensus networks are the most recent types of formalized interaction between government and business. The traditional government–business interactive mode is through the conflict networks, which will now be examined.

CONFLICT NETWORKS

The common law inherited from England follows the practice of spelling out those things that are prohibited, carrying the assumption that those things not mentioned are acceptable—a sensible practice when one considers the impossibility of defining the infinite set of acceptable behaviors. Once a law is passed its enforcement is only potential, however. The law must be administered and enforced by either public authorities given the responsibility to act under a statute, or by private parties who have been given a vested interest under the statute. In short, administration, but more important, enforcement, depends on the initiative of individuals operating as public officials or as private parties. For this reason, it is reasonable to characterize networks where potential legal activities are

created by statute, but depend on initiatives to have the actions started, as Conflict Networks, in contrast to the Consensus Networks described above.

Conflict networks surround the operation of federal and state agencies having the authority to administer and enforce certain laws. On a federal level, The Food and Drug Administration, the Environmental Protection Agency, and the Justice Department are typical examples of the enforcing authorities within conflict networks. The federal authorities have the responsibility for enforcing the laws, but sometimes private citizens are also given some specific privileges to prosecute their own claims against law breakers, as in the enforcement of the antitrust laws.

The Antitrust Enforcement Conflict Network

Concurrent with the concern over the railroads that led to the formation of the Interstate Commerce Commission in 1887 was the general congressional concern with the use of the trust device that had resulted in an important wave of industrial concentration during the 1880s. The desire to eliminate the monopolies which had been created as a result of the trust device prompted passage of the Sherman Antitrust Act of 1890. The Sherman Act prohibited contracts, conspiracies, or combinations in restraint of trade, as well as monopolies or attempts to monopolize. The earliest decisions under the act held price-fixing agreements to be restraints of trade. These early decisions also held that the Sherman Act went beyond the common law prohibitions against monopoly, and, in the 1911 Standard Oil and American Tobacco cases (221 U.S. 1; 221 U.S. 106), the Supreme Court had to face the issue of whether all monopolies, or just unreasonable monopolies, were prohibited. The Supreme Court tended toward the latter approach. A unique aspect of the Sherman Act was a provision designed to make the Act enforceable by private parties, who were given the right to sue if they were harmed and—if they were successful in their suit—the right to collect damages in the amount of three times the provable damages. This powerful incentive resulted in a considerable amount of private litigation under the Sherman Act, as well as under subsequent antitrust statutes, namely, the Clayton and Federal Trade Commission Acts of 1914.

The Sherman Act was designed to institutionalize conflict in the conflict network via the administrators of the Act, and the Courts if need be, as opposed to the regulatory commission device which institutionalized cooperation within a consensus network. Permanent conflict was not contemplated, of course. Rather, the objective was that cooperation, or some sort of agreement between administrators and defendants, would be achieved either through use of threat strategies during negotiations prior to court action, or as a result of court action if prior conferences were

unsuccessful. To effect prior agreements, the consent decree was included in the Clayton Act's Section 5(a) as an alternative to court action by the Justice Department. The Cease and Desist decree available to the Federal Trade Commission in its antitrust dealings has the same effect as the consent decree. Neither device carries an admission of guilt by the defendant nor an assessment of damages by the government. Hence the consent and cease and desist decrees are useless to any private party wishing to bring an action against the defendant. This is a powerful inducement to the defendant to agree to either of the decrees rather than to risk losing a trial in which a negative judgment could be used subsequently against them by private, injured parties.

Formalization of cooperation and agreement through conflict procedures were thus institutionalized in the antitrust conflict network, but, of course, the entire volume of antitrust cases provides ample evidence of the modifying public policy impact of the Supreme Court in interpreting the specific applications of the antitrust statutes (Areeda, 1967). There remains considerable dissatisfaction with the meaningfulness of the antitrust process (Galbraith, 1967; Mueller, 1975). Antitrust has not prevented concentration of vast sections of American industry (Blair, 1972) and, at various times, Supreme Court decisions have gutted the meaning of the Acts themselves. For example, in the 1926 Thatcher case (272 U.S. 554), the Supreme Court destroyed the effectiveness of the Clayton Act's section 7, which prohibited mergers that were likely to result in a substantial lessening of competition. The loophole permitted by the Supreme Court remained until the Clayton Act was amended in 1950. Nevertheless, the antitrust conflict network remains typical of the conflict networks that revolve around the administration and enforcement of statutes designed to place limits upon the autonomy of United States corporations.

Avoiding Competition

The normative orientation of classical economics is that the general welfare, as measured by price and quantity of goods produced, will be maximized through the competitive behavior of productive units. Potentially competitive units, however, may choose to avoid competition, because the losers suffer extinction. Uncertainty about who will survive thus provides a rationale for a mode of detente, at the least. For the corporation, monopoly is better than facing competition. When monopoly is unattainable, cooperative arrangements among firms can serve almost as well. But as Arrow (1973) has pointedly written, social justification for profit maximizing by monopolies does not exist, and the social distortions resulting from the consequent unequal income distribution associated with monopoly are significant and undesirable.

A private-sector organization's intention is not to increase through its

operations the total benefit to society, but to maximize its share of the available pie, and it will make such institutional changes as it can to achieve that objective, for example, buying influence, and generally using power to influence the rules of the game (Goldberg, 1974). Disclosure of political contributions, commissions, and bribes used by many U.S. corporations in the mid-1970s has confirmed the observation once again (McCloy, 1976) although the tendency persists to erroneously ascribe these machinations to defective morality rather than as responses to institutional pressures. A significant proportion of industrial mergers may be simply organizational interdependence responses undertaken to reduce uncertainty (Pfeffer, 1972).

Alternating periods of conflict and cooperation among firms have produced consolidation attempts that indicate that technique may have operated as an independent variable, that is, that the structural changes that occurred were dependent upon a particular combination technique becoming available and being legitimized. The transition from conspiracy in the form of gentlemen's agreements and pools to consolidation via the trust device illustrates the point. Attempts to form restrictive associations characterize the history of business combinations. It is well-recognized that cartels break down when its members violate the agreement and try to profit at the expense of other members. The trust permitted centralized legal control and economic rationalization, but the countervailing effort of the antitrust laws then occurred, institutionalizing the government as a potentially active agent in the bargaining process over competition versus monopoly. From a systemic point of view in the bargaining process, the introduction of the government was a change in its status from a parametric to an independent variable. Nevertheless, uncertainty about the behavior of the government remained a major factor throughout the history of antitrust law. For a long time, corporations had a wide range of permissible alternatives in the incessant—aside from wars and depressions—drive toward consolidation. Some early Supreme Court antitrust interpretations seem bizarre except when interpreted as ideological declarations. When the six defendant corporations in the 1897 Addyston Pipe Case were found guilty of price conspiracy violations their solution was to merge into one company (Solo, 1974, p. 104). Merger would not be a permissible option for the defendants today. Thus conflict resolution at an early stage of antitrust history could be dependent upon discovering an acceptable form for the desired action. Although antitrust interpretations and enforcement have tightened in general, the opportunity for business combinations remains very real.

Institutionalized, legitimated forms have developed which permit corporations to adopt concerted action and so avoid competition in many ways, for example, through trade associations, shadow agencies, inter-

connected lobby activities, and interlocking directorates. Furthermore, the ideological orientation of the government plays an important role in antitrust prosecutions. In the antitrust enforcement conflict network three separate groups are forced into close relations—the corporations, the antitrust agencies, and the federal courts. At times, lack of agency and/or presidential interest in pursuing antitrust enforcement permitted widespread merger activity along anticompetitive lines, as in the merger movement of 1897–1903. At other times, the active ideological alliance of the Supreme Court with the corporations negated the effect of the laws and the efforts of the antitrust agencies, as with the Supreme Court's 1926 interpretation of Section 7 of the Clayton Act. But at other times a combination of aggressive agency enforcement and Supreme Court sympathies did have a notable effect, as when, beginning in the late 1950s, decisions under the amended Section 7 of the Clayton Act effectively ruled out potentially anticompetitive vertical and horizontal mergers and forced the post-World War II merger movement into the conglomerate pattern of the 1960s.

A lesson which may be drawn is that conflict relations can be encouraged as long as a consensus network is not completed, or as long as the interdependencies within the network remain tenuous. The independence of the institutions within the antitrust conflict network structure made possible the attainment of effective conflict at some times. Industrial concentration is achieved less effectively under the antitrust enforcement conflict network because of the uncertainty inherent in the network's structure than if concentration policy was assigned to administration exclusively as a regulatory consensus network problem. Hirsch (1975) cited the antitrust laws as a concrete example of Parsons' theory of society-constraining organizations attempting to achieve maximization effects in socially unacceptable ways—a reasonable interpretation subject to the caveat that the antitrust laws' procompetitive objectives have been only partially achieved. Nevertheless, this is not to suggest that concentration has been averted in the United States; far from it, since the nation has gone through a continuous concentration movement since the 1880s, first on a market basis, and most recently on an asset basis (Chatov, 1975, pp. 201–207).

FUTURE RESEARCH

Topics, and approaches to future research on, government regulation of business are limitless, of course, but there are some avenues which appear to have some particularly significant potential.

Concern with regulatory processes is prevalent in many of the social

sciences, and it seems obvious that future research will have to cross disciplinary lines, at the very least, for substantive information developed in other areas. Fundamentally, the efforts of historians ought to be considered the basic materials, which one ignores at the risk of rediscovering, probably badly, what has already been examined. Power has always been a concern among the social sciences, particularly among the political scientists, and it continues to be perhaps the prime variable in explaining the outcome of any particular interaction. The long-run value of power as a focal point is probably limited, however, and a hypothesis can be ventured that the shorter the period under consideration, the more important is power as the prime determinant; but the longer the period examined, the less important is power, and the more important is the institutional structure of the social system involved.

Sociological materials appear to be the most useful for explaining general patterns of regulation and social control. Economics continues to provide the most sophisticated means of evaluating cost/benefits, but requires historical and sociological materials to place the cost/benefit analysis in proper, long-run perspective to explain why the distribution of rewards have been worked out as they have. Law, of course, continues to explain the constraints, possibilities, and legitimations involved in any specific problem. Less apparent is the importance of incorporating human psychology into the study of government regulation of business. Consideration of psychological variables is difficult, and little has been done with it in the area of government regulation. Nevertheless, the potentials of that application are important and deserve mention.

Psychology and Regulatory Activities

Regulation of activities stems partly from the social controls imposed by organized humans upon themselves and others, and partly from the internal controls and needs developed by each individual in the course of personal development. Almost all social science evaluations of regulatory activities have accented the organized and the rational, rather than the individual and the apparently irrational. Because no satisfactory paradigms exist relating individual to group behavior, particularly at the level of unconscious mental functioning, one can expect the dominant theme in regulatory investigations to continue to be concerned with the organized and the rational.

Some steps have recently been taken, however, which have promise for evaluating the effects of unconscious mental processes as determinants in interorganizational relations, which includes, of course, relations between government and business. Zaleznik and Kets de Vries (1975) have associated regulatory processes within organizations to the problems experienced by individuals in some of the different stages of human de-

velopment and have also related what they consider the two fundamental leadership styles—consensus and charismatic leadership—to personality structures, predicting the operation of personalities of these types within organizations. The effect of human psychology on corporate ideology has been considered (Chatov, 1973), as well as the issue of sexuality in organizational and interorganizational relations (Chatov, 1978). Hall and Lindzey (1968) have pointed out that concern with sex is central to any mass culture, but the topic has been generally ignored, as a serious avenue of research, as a motivational element in the dynamics of organizations. McIntosh (1970), in an essay relating Freud and Weber on the subject of authority, noted that secular charisma was important in the corporation. Loewenberg (1975) associated corporate behavior with the choice of leadership personality. Parsons (1954) related psychoanalysis to social structure, but the psychological dimensions of his sociology have not been sufficiently appreciated to have attracted extensive research efforts by others. Erikson's (1977) exploration of the role of toys and play in the ritualization of experience and the formation of shared "dreams" suggests a rich potential for examining the interaction of values held by individuals involved in government-business interaction. The future of this avenue of research depends on the formation of testable paradigms derived from the body of psychoanalytic materials, which suggests, again, the need for greater interdisciplinary work.

Some Substantive Areas for Future Research

Probably the major thrust in future research will continue to be the analysis of economic effects of regulation upon business and consumers; certainly this has received the greatest emphasis in the past decade, and it needs no advocacy. But there are gaps in existing scholarship on the regulatory process and its effects on the society as a whole. Relatively few scholars are concerned with issues of distribution and uses of wealth resulting from government and business interaction. Separation of ownership control from management for many years followed the wishful conclusions of Berle and Means (1932) and became part of the accepted wisdom in spite of considerable evidence to the contrary (Burch, 1972; Zeitlin, 1974), and more work is required to relate this subject to government-business interaction. Along these lines, how the regulatory process relates to the concentration of wealth, the solidification of social and economic classes, and the processes through which power enclaves develop and prosper ought to be a fruitful area of interest for scholars interested in the effects of the corporation on society.

Corporate involvement in sensitive issues like the question of the federal and state tax systems could merit some attention. What role ought corporations to play in the process of influencing taxation, particularly

since the federal tax laws as presently constituted almost certainly work to protect wealth holders and to prevent middle-income earners from achieving significant asset accumulations? Conclusive work is needed on the operations and existence of interlocking directorates and arrangements. Little is definitive on the operation and organization of trade associations as vehicles for the formation of industry positions on government activities and plans. Close analysis of industry shadow agencies, like that of the oil industry, could merit attention, as could an examination of the process of federal advisory committee appointments and operations as examples of government-business interaction. And further work could be done to extend Thurow's (1975) imaginative treatment of wealth inequalities to the distributional process within corporations and the resulting influences on social and political structure.

This paper began with the exposition of some basic models of government-business interaction in the United States, and then described the operating characteristics of two fundamental types of networks—the consensus and conflict networks—that occupy most areas of direct government-business negotiations and interactions. Attention was also given to regulation as it relates to professional groups. The paper closed with a short discussion of specific areas which appear to have been neglected aspects of government-business research. No attention was given to treatment of specific corporations because it was the intention to focus on general processes rather than individual instances. This omission was not meant to imply that case studies of individual corporate behavior were without merit. In fact, such studies are needed to identify some of the actual processes through which business interacts with government. One thing is certain, and that is that increasing amounts of the nation's energy will be funneled into government activities, and as the government's role becomes greater, the attention and effort business will devote to influencing government will also increase. It is doubtful that either process is reversible, which may make understanding the government-business regulatory process the only way of preventing being overwhelmed by it.

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MANAGERIAL THEORY VS. CLASS THEORY OF CORPORATE CAPITALISM

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ANGELES

Constricted by the same narrow paradigmatic assumptions as academic social science in general, and afflicted by the same underlying conservative metaphysics (though in its peculiarly American "liberal" form), recent analysis of the large corporation's "social performance and policy" has simply ignored the most basic class relationships—the split between labor and capital—which the large corporation embodies. Analysis of the large corporation, as the careful review of the "corporation–society (or organization–environment) literature" in Lee Preston's contribution to this volume itself makes strikingly clear, is couched in a theoretical vocabulary which, whether wittingly or not, neutralizes the central question of class conflict and social domination under contemporary capitalism.

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The corporation appears to exist in a social order which, albeit imperfect, is essentially harmonious, timeless, and just: concepts such as "homeostasis," "functional requisites," "interested parties," "technostructure," and "resources" characterize a "social environment" (whether seen as putatively "holistic," "subsystemic," or "fragmented") shorn of real historic classes and their political-economic interrelationships.

Such a paradigm is remarkable but not unexpected of an academic social science in which the prevailing view holds that class theory is no longer applicable to the United States, since it has allegedly witnessed the essential democratization of its economic life and the solution of the major problems characteristic of capitalism in the past. In the alleged empirical basis of this view, three closely related generalizations are critical:

1. That the main trend in the United States has been toward lessening inequalities in wealth ownership and income distribution and the concomitant disappearance of significant differences in consumption and life-chances—and therewith of social classes;
2. That the working class has been shrinking and now constitutes a minority of the population and merely one "interest group" among many, as the number of manual workers in the labor force has been surpassed, in the modern highly complex functional division of labor, by the now far-greater number of white collar workers;
3. That the capitalist class itself has been gradually expropriated by the decisive shift in corporate control from capital to bureaucracy.

Of these three major *pseudofacts*, none has been so recalcitrant to the findings of valid and reliable empirical social research or to theoretical and methodological critique, and so resilient in reasserting itself, as the last. And, in a significant sense, it is this latter generalization in particular that "explains" and contains the others theoretically.¹ Within the social process underlying the alleged democratization of our economic life and the disappearance of classes, the transformative impact of the large corporation on the political economy and social structure of "mature" capitalism is typically assumed to be central. It is in the alleged "silent (or 'unseen') revolution" wrought by the large corporation, in which its managers usurp their capitalist predecessors and abolish the profit imperatives of capitalism, that the most fundamental social transformation resides, rendering our society both "post-industrial" and "post-capitalist." Therefore, in this view, any theoretical focus on the exploitative relationship between capital and labor as central to the entire productive process has to be irrelevant and inapplicable to the understanding of our "advanced society" and of the place of the large corporation within it.

The latter, of course, is the essential theoretical thrust of what is now known as "managerialism." "The dissolution of the atom of property," as Berle and Means (1967, p. 8) summed up the new managerial theory decades ago, "destroys the very foundation on which the economic order of the past three centuries has rested." Class theory, in contrast, argues precisely that the accumulation of capital constitutes the mainspring of the social process, even with the large corporation's decisive ascendancy, and to deny or ignore this is to mystify its essence.

In the managerial model, much as in class analysis, the large corporation is at the center of our political economy. However, not merely a new phase of capitalist development but a veritable social metamorphosis is the result: a new "corporate system" (Berle and Means' phrase) founded on "citizen enterprises" (Donnadieu, 1975) in the "post-capitalist society" (Dahrendorf, 1959) is said to emerge. The "separation of ownership and control" in the large corporation—which managerialists consider an "incontrovertible" fact—has, they claimed, severed the connection between the family and private property in the means of production and torn up the roots of the class structure and political economy of capitalism; a new stratum of bureaucratic functionaries or a congeries of economic "elites" in control of the new forms of productive property displaces the capitalist class and, with it, capitalism itself. The consequence is the emergence of an occupational system based on individual achievement, in which "statuses" are ordered in accordance with their functional importance. The essence of social domination is no longer class ownership of the means of production, and no class "rules" in any sense, economically or politically. "The decisive power in modern society," in Galbraith's representative formulation, "is exercised not by capital but by organization, not by the capitalist but by the industrial bureaucrat" (1971, p. xiv).

With this decomposition of capital and bureaucratization of enterprise, profit maximization no longer shapes the conduct of the large corporation. As Kaysen avers, "no longer the agent of proprietorship seeking to maximize return on investment, management sees itself as responsible to stockholders, employees, customers, the general public, and, perhaps most important, the firm itself as an institution" (1957, p. 313). Much as Berle and Means (1967, p. 313) saw control of the large corporation devolving on "a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy," Galbraith now finds the "technostructure" in control of "the heartland of the modern industrial system," in which large corporations constitute the "basic planning units." The result is that "the classical class struggle at the center of our industrial life is a dwindling phenomenon. . . . Capitalist goals," Galbraith explains, "are sharply juxtaposed to those of labor. Both capitalist

and worker want revenue; speaking broadly, both want the same revenue. This is a condition well calculated to induce conflict. With the passage of power to the corporate bureaucracy, to what I have called the technostucture, the conflict is a good deal less stark. In degree the technostucture has the choice between allocating revenue to stockholders and to labor." Hence, the "concern for profit maximization" disappears, says Galbraith (1970, p. 24; 1971, p. 121); and "the primary structural emphasis," as Talcott Parsons aptly puts the essence of managerialism, "no longer falls on the orientation of capitalistic enterprise to profit and the theory of exploitation, but rather on the structure of occupational roles within the system of industrial society" (1954, p. 324).

Class Theory of the Large Corporation

The illusion of managerialism derives from a teleology of bureaucratic imperatives: bureaucratization is seen as an inexorable historic process before whose advance even the capitalist class has fallen. Class theory, in contrast, reveals the contradictory class relations beneath the veiling appearances of the large corporation: the extraction and realization of the surplus product of labor, albeit mediated by complex bureaucratic forms, remains the essence of the entire productive process. If the ascendancy of the large corporation has meant the dissociation between ownership of capital and actual direction of production, capital retains control of the productive process as a whole, on three levels:

1. The large corporation continues to be *controlled* by ownership interests, despite their *management* by functionaries who may themselves be propertyless;
2. Whatever the situation within any given large corporation, the "owners" and "managers" of the large corporation, taken as a whole, are merely elements of the same more or less unified social class;
3. The conduct of the large corporation is largely determined by the imperatives of capital accumulation.

Briefly put, the reasoning behind these propositions is as follows:

1. Managerialism is based on a conceptual conflation of ownership, control, and administration of capital, and the consequent "empirical" illusion that *control* and *administration* are identical. It confuses (a) the existence of an extensive administrative apparatus in the large corporation, in which the proportion of managerial positions held by members of the principal proprietary families may well be negligible, and (b) the locus of control over that apparatus. If the varied functions of capital that were once largely united in the person of the individual capitalist are now

institutionalized and split up among various bureaucratic roles and interdependent offices in the large corporation, *control* over that apparatus remains *extra*-bureaucratic, and resides with capital.

"Control" refers here to the ability of a given proprietary interest to realize its corporate objectives over time, despite resistance; and this depends on the corporation's concrete structure of ownership and the constellation of intercorporate relationships in which it is involved. Control can certainly be exerted without the official presence of principal owners of capital within "management" itself, by virtue of their ownership of the corporation's critical minority holdings, or specific financial arrangements. An individual's or group's capacity for control increases correspondingly, depending on how many other large corporations (including banks and other financial institutions) in which it has a dominant, if not controlling, position. The very same quantitative proportion of stock may have a qualitatively different significance for a principal capitalist family whose sphere of influence radiates out among several large corporations and banks compared to a single individual who has no other institutions or resources to buttress his position.

Empirically, such connections and critical holdings tend to be invisible to the uninformed eye—and even to the careful researcher. Even the staffs at *Forbes*, *Fortune*, and *Business Week* rely heavily on gossip to estimate the holdings of even "well-known" families in specific corporations in the United States, because the latter's holdings are hidden in a welter of brokers, dealers, foundations, street names, nominees, holding companies, and associates, as well as by a web of kinship that binds apparently unrelated individuals into cohesive owning units for the purposes of control. For the past several years, in fact, a subcommittee of the U.S. Senate Committee on Government Operations has been trying without success to penetrate the secrecy hiding corporate ownership, leading the senators chairing it to exclaim recently that the use of nominees results in a "massive cover-up" of the actual principal owners and centers of control in large American corporations (U.S. Congress, 1974, p. 3).

Thus, the alleged separation of ownership and control within the large corporation has not at all been demonstrated. It is almost certainly a "pseudofact," the result of persuasion by the plausibility of appearances rather than adequate analysis and reliable and valid research. Even Berle and Means' widely cited but seldom read work, it turns out, had information which permitted them to classify as definitely under management control only 22 percent of the 200 largest corporations, and of the 106 industrials, only 3.8 percent! Recently, moreover, an outstanding research work, utilizing publicly available "inside information" that appeared in the various business journals and financial press over several years, concluded—contrary to the ontological assumptions of

managerialism—that the vast majority, or 60 percent, of the 500 largest industrial corporations in the United States are under “possible” (64) or “probable” (236) *family control* (Burch, 1972, pp. 36ff.; 169 ff.). Full access to the critical data would probably reveal a specific proprietary locus of control in the other corporations as well.

2. The heads of the largest corporations are the principal functionaries of capital. They occupy the command posts in the country’s decisive units of production; and their personal careers, interests, and commitments are intricately bound up with the expansion of corporate capital. Although not typically among the principal shareowners in the corporations they direct, many are; and most own significant blocks of stock whose absolute combined worth not only constitutes a primary source of their income but also places them among the major owners of capital in the population. Typically, whatever the country in question, they move in the same more or less intimate social milieu as the principal owners of capital. A variety of specific institutions, from debutante balls to select social clubs, summer resorts and winter retreats, and assorted watering places, as well as the “proper” schools and colleges (fraternities, sororities, and “living groups”), assure their families’ commingling and psychological compatibility, and sense of social solidarity—and, therefore, differential propensity to intermarry. The families of the officers, directors, and principal owners of capital in the largest corporations, therefore, are probably integrated both by intimate social ties and a complex pattern of entangling kinship relations into the same social class.

Thus, even were certain banks and corporations to become so large that they were not ordinarily under the control of specific minority ownership interests, it would not mean that power had passed to the “new princes” of the managerial realm. Although large corporations (and banks) might conceivably develop a relative autonomy from *particular* proprietary interests, this would still be limited by the *general* proprietary interests of capital. The large corporations are units in a class-controlled apparatus of private appropriation; and the whole gamut of principal functionaries and owners of capital—bound together by an ensemble of social relations, concrete interests, and overriding commitments—participate in varying degree, and as members of the same dominant class, in its direction.

3. Even if “management” were in control of the large corporations, these would be compelled to engage in a “systematic temporal search for highest practicable profits” (Earley 1956; 1957). Their conduct is primarily shaped by the objective necessities and systemic imperatives inherent in the accumulation of capital, and varies with the nature of their investments, competitive relationships (now fundamentally *global* rather than national), and labor force. Growth, sales, technical efficiency, and a strong competitive position are at once inseparable managerial goals and

the determinants of high corporate profits—which, in turn, are the determinants of high managerial income and status (Alchian 1968; Larner 1970). Whatever its “motivations,” management’s decisions on the planning and organization of production and on pricing and sales must be measured against and not imperil corporate profitability. Significant deviation from profit-maximization also would lead to the lowering of the market price of the corporation’s stock and the constriction of its capital base, and make it an attractive and vulnerable target for takeover—and the displacement of the incumbent management (Manne 1965). Especially with the centralization of investment among the few large bank trust departments (in the U.S., they manage assets greater than the assets of the 100 largest corporations; see Lybecker, 1973, p. 997) which administer the personal capital of the wealthiest investors, there would be far-reaching negative reverberations for a corporation whose management provided a lower rate of return than others. Furthermore, “professional” management, particularly the use of “scientific budgetary planning” and the emphasis on the “time-value of money,” may strengthen rather than weaken the drive toward profit maximization (Earley 1956; Earley & Carleton 1962; Tanzer 1969, pp. 32–34). Thus, whether or not managers are actuated by the “profit motive” as a subjective value commitment, “profit maximization” is an objective requirement, since profits constitute both the only unambiguous criterion of successful managerial performance and an irreducible necessity for corporate survival.

To sum up, rather than having metamorphosed into the basic planning unit of the new industrial state or post-capitalist society, as managerialism contends, the large corporation is a class-owned and class-controlled form of *social capital* that both administers production and commands labor in order to enforce the extraction of the surplus product, which, in turn, is appropriated by private capital. Corporate capital is now at the critical center of the exploitative process, which remains the essence of social domination under advanced capitalism and the mainspring of its development.

A full empirical confrontation between managerial and class theory of the large corporation, as even this brief discussion indicates, would involve the testing of a complex set of interrelated hypotheses. The following, however, are certainly central:

1. Since it is only the *visibility* of controlling proprietary interests in large corporations that is negatively associated with size (i.e., the larger the corporation, *ceteris paribus*, the more difficult it is to discover the locus of control), therefore, there is no *causal* relationship between size and managerial control. The large corporations typically are actually controlled by principal proprietary interests.

2. To the extent that large corporations really develop autonomy from

particular proprietary interests, thereby constituting a *new form of class property* ("corporate" or "social" capital), it is the "inner group" of interlocking officers and directors, especially the finance capitalists sitting on the boards of the largest banks and corporations, who become the leading organizers of this system of class-wide private appropriation. Therefore, even more than other corporate executives, these critical functionaries of capital will be drawn from the social class formed around the core of interrelated principal owners of capital.

3. If there are real *qualitative* differences between corporations controlled by "managers" (or "technostructures") and ones controlled by "capitalists" (owners), then there should be significant *quantitative* differences in their rates of profit.

4. Above all, if class ownership of the means of production and the appropriation of labor's surplus product remains the essence of social domination under advanced capitalism, then the rate of profit of large industrial corporations should derive primarily from the "rate of exploitation." That is, an econometric model containing the main contending theoretical variables of managerialism and class theory, and controlling for the extent to which labor uses materials and machinery in production, should reveal that the ratio of "surplus labor time" to "unpaid labor time" in production by far explains the highest proportion of variance in the rate of return.

To "test" such central hypotheses, of course, will require a drastic and radical re-orientation of theory and a new methodology which focuses on the constellation of intercorporate relationships, the web of kinship and general ensemble of social relations involving managers and capitalists, and the most fundamental relationships between classes. In the search for an understanding of "corporate social performance and policy," it is to be hoped that this publication series will both stimulate the interest and provide the forum for such theory and research concerning the real social implications of corporate capital.²

FOOTNOTES

1. For the debate and presentation of relevant evidence concerning these and other critical assumptions and propositions concerning American reality today, see my *American Society, Inc.: Studies of the Social Structure and Political Economy of the United States*, 2nd edition (Chicago: Rand McNally, 1977). The present essay is a necessarily elliptical summation of three earlier (and lengthy) articles (Zeitlin 1974; 1976; Zeitlin *et al.*, 1974) on the question of the nature of corporate capital.

2. Of course, this radical break with prior theory and methodology and the beginning of such research has already occurred. References to some relevant early work appear in my articles already cited. Also, see Norich 1976, and Zeitlin and Norich 1978.

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APPENDIX A—THE MANAGEMENT PROCESS AUDIT MANUAL*

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THE MANAGEMENT PROCESS AUDIT MANUAL

This document is an attempt to develop a method for assessing the organizational readiness of a business firm or other organization for implementing organization-wide policy, most specifically in the area of recent social concerns. Within the framework of this intent, there is more than one specific use to which the manual may be put. It may, for example, be used by the organization itself to assess its own status. It might also be used for purposes of assessment and diagnosis by a public regulatory agency having the responsibility for enforcement of a particular law or regulation. It could also be used by a third-sector group which was interested in evaluating the social responsiveness of one or more firms or industries. It could

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be used by investors to judge the responsiveness and vulnerabilities of firms in which they are contemplating investment. Finally, it might be used by a firm's public accountants as a vehicle for attesting the status of the firm's efforts in complying on a social policy issue.

To some extent the informational needs of these various potential users will vary, as will their access to information. Having recognized this, we have devised a manual whose format would serve the needs of those who would require the widest range of information (i.e., outside parties with little or no initial knowledge or organization) but would require access to information generally available only to authoritative persons inside the organization. This provides as complete a format as possible within which one can compromise to the realities of one's situation. Much of what an outsider would want to know about a firm and its industry would be part of the workaday knowledge of the insider. An outsider who could not get complete access to all information that was sought would have, at least, a specification of what was not known as well as what was known.

The skeletal structure of each section is a research question, that is, a question to be answered by the data rather than questions to be asked of respondents or informants. A research question might take the form of "What are the distinctive pollution problems of this industry?" Obviously, this "research question" might be put directly to informed persons, and probably would be. However, it might be answered in whole or in part by literature sources, by reading of the files of a firm or of a regulatory agency, or by inspection of plants in that industry.

The purpose of each research question is to establish the status of various aspects of the firm and its management system for handling social issues. Since many types of evidence may be brought to bear, and since it is impossible for us to foresee every contingency that might arise, we have concluded that the intelligent user of this manual can handle these contingencies if the rationale and intent of the research question is clear. The rationale and intent of each such research question will be elucidated by text material in the body of the manual.

SECTION 1—IDENTIFICATION OF THE ISSUE

RESEARCH QUESTION: What issue or issues are to be investigated?

Procedural Questions

1. Is the company vulnerable on some social issues (whether or not there is relevant law or regulation) and not on others?

2. On what issues has public policy been defined? What laws exist regulating specific issues? How aggressively are the laws enforced?
3. How much discretion does the firm have in responding to such issues?
4. Is the company especially committed to action on some discretionary issues either as part of the firm's strategy or by virtue of the commitment of its executives?
5. What issues have support in the general public among civic leaders, public interest groups, etc? How active are the groups?
6. What data on corporate performance exist in the company? (E.g., employment statistics, emissions data, community impact.)
7. How does the company performance data compare with other companies in the same industry, the general business community, with what is required by law, state-of-the-art technology? (The basis for comparison should be selected by the researcher as is appropriate to the investigation.)
8. Is the company involved in any lawsuits as a result of any issue?

Discussion

Since anything that a firm does has an actual or potential social impact, there must be some selectivity in what is audited. For a regulatory agency evaluating a firm this poses little difficulty since its turf is defined by its charter and the relevant legislation. But for other potential auditors the problem of choice is essential. Clearly the firm should be in compliance with the law, but the existence of a law does not automatically mean that the firm has an area of vulnerability. A food-processing firm which has pioneered in quality control may have reason to be confident that it is well in compliance with the relevant legislation. Certain industries have little difficulty with pollution or health and safety problems, and so on.

On the other hand, absence of legislation does not mean absence of vulnerability. The most straightforward example might be the dependence of public utilities on the good will of the communities in which they operate. Consumer goods manufacturers are more sensitive to public displeasure than are industrial suppliers. A firm with a heavy capital investment (such, again, as a utility) may have a big stake in the viability of the community, as also would a bank or similar business dependent on the economic strength of its surrounding area.

We have mentioned areas of vulnerabilities that are likely to be of prime concern regardless of the perspective from which an audit is done. But there are positive as well as negative reasons for being involved in social issues. These may arise from the personal commitment of officers of the firm or from a strategy such as being a leader in response to consumerism

issues. Even some of the issues mentioned under potential areas of vulnerability may be phrased in a positive fashion. A firm may take part in community development not out of fear of loss of its business base, but because of its vision of an improved future.

Selection of issues to be audited is a matter of information and a matter of judgment as to how to expend finite auditing resources and also not to place an undue burden on a busy organization. When the audit is being done for management purposes, the top executives of the company will be prime sources of both information and judgment. The purpose of the management process audit is to serve their concerns. This does not mean, however, that the auditor is entirely passive in the process of prioritizing issues to be audited. Like any good consultant, he will help executives sharpen their judgment. It is for this reason that we suggested gathering available data on the performance of the firm and of other firms in the industry. This is to get a first rough cut at areas of vulnerability.

SECTION II—PROCEDURAL QUESTIONS

RESEARCH QUESTION: What is the background of the industry and firm? Is any comparative data available on industry performance on social issues?

Procedural Question

1. What is the company's history? How large is the company in comparison to its competitors?
2. What are the activities of the company?
3. How is the company organized? What planning procedures exist? On what basis are employees evaluated? Training procedures exist? On what basis are employees evaluated for promotion?
4. How strong is the company's financial position?

Discussion

Here, more than any place else, the auditor must use his common sense. The goal is not to learn everything there is to know about the firm and the various industries it may be in. This gathering of background information has two specific objectives.

The first is to assemble background information which bears on the specific issues to be audited. To some extent this is ground that had to be covered in a cursory way in the prioritizing of issues to be studied, but here it may be useful to go into these things more thoroughly. For exam-

ple, it is one thing to know that a company is involved in a highly polluting industry, but it is another thing to understand what the specific pollution problems of industry are. Or, virtually every firm has problems in the area of equal employment opportunity, but a firm that employs a high proportion of technically trained personnel has distinctive problems.

The second objective is to understand the general capacity of the organization to respond to issues of a corporate-wide nature, as well as its general susceptibility to influence from both the local, and the broader, community. To some extent these two factors are related. Firms dealing directly with consumers and/or which are the dominant firms in one or more communities are both more susceptible to pressure and *tend* to have learned better how to respond to external demands.

SECTION III—ESSENTIAL, BUT NOT SUFFICIENT MANAGEMENT CONDITIONS

A. *RESEARCH QUESTION:* Is there evidence of top-level concern for each social issue, and to what extent has the concern been translated into a corporate commitment to deal with the issue?

Methodology:

1. Obtain any speeches, articles and written materials that the CEO or other top executives have prepared on the social issue being analyzed.
2. Interview a cross section of staff and line managers to assess their impressions of corporate commitment.
3. Interview the CEO, and the CEO's heir-apparent (if this is known), plus the other key executive officers.
4. Interview external observers of the firm such as financial analysts and media representatives to determine their impressions of the firm's commitment to social issues.

Procedural Questions

1. Has concern for the issue been expressed by any of the company's top executives?
2. Can the basis for company concern be identified?
3. How do external observers of the firm view the company's strength of commitment to the social issue?
4. What priority do line managers believe the social issue has within the company?

Discussion

"Commitment" is, of course, a psychological state and can be assessed only inferentially. Nevertheless, unless there is adequate resolution at the top of the organization, the prospects of policy implementation are poor, and one way or another it is important to judge the strength and nature of this commitment as well as possible.

The key person is the chief executive officer (or the head of the relevant sub-unit if a sub-unit is being audited). The first step in corporate commitment occurs when this manager becomes convinced of the need for a given policy and/or program. The next two steps occur in no fixed sequence.

One of them is the taking of actions that place the person on the record in such a way that they form an external constraint which makes it difficult for him to renege on his commitment. Giving a public speech, getting written up in the press, or joining public committees are various ways in which that may occur. Such events are generally taken as expressions of sincerity. But, whether the person is sincere or opportunistic, the creation of such a public record generates external expectations which in general can be ignored only at a cost.

The second of these two next steps is the communication of his commitment to his own organization. Communication of commitment varies on two dimensions: breadth and depth of awareness in the organization and the extent to which it is thought the CEO really believes what he said. The first of these will precede the second. As a matter of fact, belief in the depth of the CEO's personal commitment may be imperfect until the very end of the process of institutionalization. The final conviction of his commitment occurs ordinarily only when he shows the disposition to reward or punish executives for compliance with the policy.

B. *RESEARCH QUESTION:* Has corporate policy been developed on the social issue?

Methodology:

1. Obtain copies of policy statements, if any exist.
2. Interview personnel who drafted the statements.
3. Interview line managers to get their perceptions of the policy.
4. Interview the CEO to get his views on the policy.

Procedural Questions

1. What is the substance of the policy that exists? How specific is the policy? Has the policy been changed over time?

2. Who formulated the policy? Board of Directors? Corporate staff? Line managers? Employees?
3. In what form has the policy been articulated?
4. What kind of analysis of the issue has the company made?
5. How is the policy perceived at the line management levels? Do they know it exists? Do they know what it says? Are they enthusiastic about implementing the policy?
6. Does the policy include goals? If so, what are they? Are there strategic goals? Operational goals?

Discussion

The formulation of corporate policy on a given issue may proceed by degrees and need not take place at any fixed point in the implementation process, though it ordinarily takes place at a rather early point. Generally, statements of CEO commitment are too general to be much of a guide to action. A formal statement of policy is drawn up to be such a guide. While this is more likely to happen after a staff specialist has been appointed, it may also happen before that occurs. Since it may happen in either Stage 1 or Stage 2, the existence of a formal policy statement does not locate the organization firmly in either stage. While some organizations have renounced a formal policy setting even when at a fairly mature phase of Stage 2 on the grounds that it is not their style to have formal policies, we, with only some slight hesitation, conclude that a formal policy statement is a step forward in the implementation process—and probably a necessary one. If the management of a particular firm believes otherwise, they should be pushed to defend that position.

C. RESEARCH QUESTION: Is there a staff specialist responsible for managing response to the social issue or is this function being performed on an ad hoc basis? If there is a staff specialist, what is he doing, and how is he carrying out the function?

Methodology:

1. Interview the specialist, if one exists, or the person with the responsibility for dealing with the issue.
2. Interview the specialist's staff (if one exists).
3. Interview operating managers/corporate managers to gauge their opinion of the specialist.
4. Observe the specialist's relationship to his staff and to company operating managers.
5. Consult relevant documents, e.g., a memo announcing the establishment of the staff post.

Procedural Questions

1. If no specialist exists, is the company contemplating appointing a specialist?
2. If the specialist exists at the corporate staff level, who is the specialist? How does the specialist's office function?
3. Are there specialists at the operating levels? Are they needed?

Discussion

Almost all of the social issues with which American business is concerned require the development of new competencies and generally the assignment of someone to give them special attention. This has not yet happened in all companies on all issues, and a considerable number of quite large firms have only recently appointed staff specialists to deal with an issue of such long standing as that of equal employment opportunity. Some corporations delegate a new issue immediately to the operating division, which may or may not appoint a specialist. Whatever the relevant business unit, we have seen no progress on implementation in the absence of a specialist.

The assignment of staff specialists to various operating levels of the organization is generally a sign of progress. Some firms believe this is not necessary on some issues, and others make it a part-time job. While we would not quarrel categorically with this judgment, the auditor ought to probe deeply enough to form a judgment on this point.

D. *RESEARCH QUESTION:* Can the corporate information system measure an individual manager's performance on social issues, as well as progress for the company as a whole?

Methodology:

1. Gather any available reports.
2. Interview information system managers.
3. Interview the specialist (if there is one).
4. Interview corporate executives responsible for reviewing managerial performance in the specific area being analyzed.
5. Describe the capabilities of the information system, not in highly technical terms, but in terms of its measurement capabilities.

Procedural Questions

1. What data can the information system supply?
2. What kind of measurements are being used? What measures are being thought about?

3. Is the information available adequate to meet existing legal requirements? Is there a government reporting system on the issue?
4. Where do reports originate? How often are they prepared?
5. Is the information distributed in connection with performance reviews of individual managers? Is the information used in the budgeting process?
6. Do corporate managers use the information system to set goals? In planning? Do line managers have access to the same information?
7. Are performance statistics published? Internally?
8. Does the information system measure negative criteria, such as legal citations?

Discussion

Improving performance demands some means of monitoring it. We know of no organization which had an adequate information system in place when it began dealing with any of the contemporary social issues. The development of an adequate information system may proceed through more than one step and may take several years. It is common for firms, as a first step, simply to ask operating units if they are in compliance and/or have been cited for violations in the area of equal employment or pollution, only to find that a more detailed (and reliable) flow of information is needed. Ultimately what is required is a regular flow of information on a monthly or quarterly basis. This information should not only include measures of performance, but also include reports of progress of programs, e.g., research on pollution control, progress on installing new equipment, on training the disadvantaged, and so on. Whatever the state of the development of the information system on a given issue, it should be monitored regularly by the personnel responsible for the implementation of the issue.

E. **RESEARCH QUESTION:** What programs exist in the company to deal with social issues?

Methodology:

1. Obtain any written materials that detail programs that the company is currently implementing.
2. Interview the specialist, if he/she is involved in the implementation.
3. Interview operating managers who are involved with the programs.

Procedural Questions

1. Have any programs been formulated to change company behavior on any particular issue?

2. If the answer to question #1 is *yes*, find out:

- a. Who formulated these programs? Does the planning process allow for feedback from operations to development?
- b. Does the planning process adequately involve people who have sufficient understanding and credibility to both develop a new social program and then evaluate its worth?
- c. Is there a low reward, high risk for someone who offers a new deal? Do employees feel that it is better to maintain the status quo than to suggest a dramatic change of direction?
- d. Describe in detail the purpose of the program(s) and the substance. Do programs include specific quotas, objectives, timetables?
- e. Are these new programs or extensions of existing programs?
- f. Have any prior programs failed? If so, why?
- g. Were programs prepared in sufficient detail to provide clear instruction for implementation?
- h. Who is responsible for implementing the program? Corporate staff? Operating managers? Have new programs been implemented in a way contrary to normal management procedures (i.e., following a "top-down" rather than a "bottom-up" mode)?
- i. What are the reporting relationships of the persons involved in implementing the program? Have they been clearly defined?
- j. Is guidance and support from upper management available for the program?
- k. How many employees are involved in implementing the program? What portion of their time is devoted to working on the issue? Have actual business operations been affected?
- l. Was there any training given to personnel responsible for implementing a program? Was any required?
- m. Has a specific program been changed as the project progressed? If so, why and how? Is there a mechanism for restructuring programs?
- n. Is there a gap between policy statements and what the programs are actually accomplishing? If so, has this caused any friction within the company? Has it caused new pressures from outside groups?
- o. Are program recipients satisfied with the benefits of the program? If not, why not?
- p. Is there a formal process for performing post audits of projects to examine the effectiveness of projects and how they were managed?

3. If the answer to question #1 is *no*, why not?

Discussion

Programs are of two types. One type is carried out primarily apart from regular business activities. The others are activities in support of the

implementation of issues in regular business operations. Examples of the first of these two types of programs are the establishment of the community relations teams to work on various community projects, or a food processor arranging for regular donations of food to the poor. It is important to review the administrative arrangements for the execution of such programs. Without proper supervision their purposes may be distorted. Supervisors may begrudge the time which their subordinates spend on such work, and so on. However, the second type of program is more central to our present concerns. These might include industry-wide cooperation on problems of pollution control, a program for recruitment at minority colleges in order to meet minority employment objectives, a research program on nutrition in order to get in the forefront on consumerism, and so on. Unless they are afforded proper organizational support in the form of budget, supervision, and expert guidance when needed, they may not flourish.

SECTION IV—OPERATIONAL INTEGRATION

RESEARCH QUESTION: Has the response to the social issue been integrated into the company's standard operating procedure?

Methodology:

1. Talk with operating managers.
2. Interview employees directly involved with the issue.

Procedural Questions

1. What activities associated with a social issue are still being handled at the corporate level? Which ones are being handled by operating divisions? Are operating units initiating ideas? Are divisions taking the initiative on program determination? Are division managers developing programs?
2. If steering committees or top-level management groups are involved in the issue, are they making decisions with the appropriate amount of detail? Is there still excessive preoccupation with detail at that level?
3. Has any traumatic event occurred as a result of a social issue?
 - a. Was the trauma caused by outside pressure groups?
 - b. Were employees demanding change?
 - c. Were there governmental actions?
 - d. How did the company respond? Were operating managers able to handle the situation? Did corporate managers have to intervene?
 - e. Did any changes in responsibility result?

f. What effect has the trauma had on how the company operates? Was the trauma a learning experience?

4. Is the staff/line relationship an advisory or adversary one?

5. Are line managers willing to take on added responsibilities and risks for getting subordinates to change their actions?

6. What resources have been committed to solving the problem? From whose budget did the resources come? What happens to these resources when company profits sag?

7. Is the social issue mentioned in the overall business plan of the company? Who is making the resource allocation recommendations? Is the issue considered in the budgeting process?

8. Does the information system provide information for both middle managers to do their job and for top management to evaluate performance?

9. Has the executive evaluation system been changed to include a review of the operating manager's performance on social as well as financial criteria?

10. Has participation in social issues influenced anyone's career? Does an outstanding performance in social areas enhance the opportunity for promotion? What happens if performance is poor?

Discussion

Here we are dealing with the final stage of implementation. Implementation may be said to be complete when operating managers accept responsibility for the issue, build it into their plans and budgets, and evaluate their subordinates for their performance on the issue.

Some activities and arrangements are necessary or helpful in this final stage. Sometimes, special training is required for various types of personnel. Committees are frequently useful. The committee structures may at times be quite complex. Perhaps two rules govern the appropriateness of committee arrangements. They should include all levels of personnel whose participation is required for implementation of levels of personnel whose participation is required for implementation of the policy. They should have access to the manager who has assumed responsibility for the issue, and not be restricted to access to personnel who must carry out the policy, and who might be motivated to be unresponsive or block information.

The reason for asking whether a "traumatic event" has occurred is that far more often than not it takes some development of a dramatic nature finally to move the organization to the final state of implementation. Understanding just what happens can tell us what lesson the organization has learned.

FOOTNOTE

*This is an edited version of a larger document which was under revision by Prof. Bauer at the time of his death. For additional discussion of the use of this Manual, see Bauer's major paper in this volume and also, by the same authors, "Auditing the Management Process for Social Performance," *Business and Society Review*, Fall 1975, pp. 39-46.

APPENDIX B — CANADIAN CORPORATE SOCIAL RESPONSIBILITY SURVEY*

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PURPOSE OF THE SURVEY

Traditionally, research about corporations and corporate concentration has centered on economic dimensions and effects. This is entirely understandable, because economic activity is the distinctive purpose of corporate organizations. This emphasis has been reflected in the work of the Bryce Commission and similar bodies in other countries.

This survey, however, focuses on a *different* question, namely, what are the other than strictly economic impacts of large corporate organizations and how do firms deal with them? This issue embodies other more specific questions, including:

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How is the corporation's impact on society *recognized* both from within and outside the firm?

How is the impact of the corporation's social involvement *understood and analyzed*?

What corporate response, if any, is being made?

We acknowledge that the term "corporate social responsibility," although widely used, carries no specific meaning. The purpose of this survey is to see how this concept, called by whatever name, is being defined through the behavior of individual corporations in Canada. We are aiming for a survey of current practice, including underlying concepts and methods of analysis, not at a comprehensive declaration of principles. Indeed, we doubt that a statement of general principles would be sufficiently concrete to be of any great value for our work or for corporate managers.

Toward a Practical Concept of "Corporate Social Responsibility"—Core Activities and Their Consequences

Every corporation is established to carry out specific economic functions and, in fact, grows, declines, or goes out of business in response to demand of these functions, the firm's effectiveness in performing them, and their acceptability in the light of public policy and needs. In any corporation, specific activities are undertaken which flow from the firm's primary economic functions, and together they shape the relationship of the corporation to its social environment. These activities can be thought of as "core" or central to the firm's purpose and mode of operation. In turn, these core activities give rise to a wide range of corporation-environment interactions, including, for example, the marketing of products and services, procurement of supplies and equipment, and employment of personnel. Specific requirements of public policy can also be thought of as being part of the firm's core activities. Licensing and tax requirements apply to all corporations, and specific regulations concerning safety, health, and product quality (to mention only a few) are clearly central to the survival of the enterprise. The involvement of business firms and, in particular, larger corporations in society is *not*, however, limited to final market sales, payment of costs and wages, and meeting specific legal and regulatory requirements. On the contrary, most of these core activities give rise to *secondary* or *consequential impacts* which may, in fact, be of equal or greater social importance. Advertising and product development may affect life styles and broad consumption patterns; employment opportunities or their absence may affect social mobil-

ity, income levels and living standards; product quality and environmental effects may have impacts on individuals and geographic areas far removed from direct contact with the corporation and its operations.

In short, one can think of a corporation's relationship with its social environment as a function of its core activities and the secondary impacts that flow from them. The scope of involvement will change over time and will vary, of course, from corporation to corporation. It is within the concept of a corporation's core activities, and its resulting secondary or consequential involvements, that this survey has been developed. In conducting this study, we take the position that relationships between a corporation and the society of which it is a part are not primarily to be viewed as moral problems. Instead, we are attempting to analyze an evolving set of corporation-society relationships that have changed in the past and will continue to do so in response to changing ideologies and circumstances.

Guidance in Completing the Questionnaire

We recognize that this is a lengthy survey (35 questions) but nevertheless we seek your cooperation in completing it as fully as possible. For most questions, a simple check mark will suffice. In some instances, several check marks may provide a more accurate answer. Occasionally, we have asked for quantitative information as well. If you find that you need more space to answer a question fully, please provide additional information on separate pages.

We believe that with your cooperation, a benchmark study can be produced which will be of significant value to Canadian corporate executives who are attempting to understand and manage the complex but increasingly important subjects of corporate social responsibility and public affairs.

CORPORATE SOCIAL RESPONSIBILITY SURVEY

COMPANY DATA

1. S.I.C. Classification: _____
2. Gross revenues last fiscal year:
 - _____ under \$1 million
 - _____ \$ 1 million — 10 million
 - _____ \$ 11 million — 50 million
 - _____ \$ 51 million — 100 million
 - _____ \$101 million — 500 million
 - _____ over \$500 million.

3. Total number of employees in Canada:
 _____ under 500
 _____ 501 — 1,000
 _____ 1001 — 5,000
 _____ 5001 — 10,000
 _____ over 10,000.
4. Production and/or distribution facilities located in:
 _____ all 10 provinces
 _____ the following provinces: _____
5. Sales offices located in:
 _____ all 10 provinces
 _____ the following provinces: _____
6. Balance sheet value of fixed assets, last fiscal year:
 _____ under 10 million
 _____ 11 — 50 million
 _____ 51 — 100 million
 _____ 101 — 500 million
 _____ over 500 million.
7. Approximate level of profitability after tax over last five fiscal years, as a percentage of sales:
 _____ 1975 _____ 1974 _____ 1973 _____ 1972 _____ 1971 _____ 5 yr. avg.
8. Type of ownership:
 _____ Crown corporation
 _____ Canadian-controlled corporation—publicly held
 _____ Canadian-controlled corporation—privately held
 _____ Subsidiary of Canadian corporation
 _____ Subsidiary of foreign corporation
 _____ Percent of equity owned by Canadians _____
9. Major products or services supplied by your firm are:

10. Which of the following would best describe the organizational structure and decision-making processes in your company:
 _____ Holding company, with centralized decision making?
 _____ Operating company with centralized decision making?
 _____ Operating company with decentralized decision making?
 _____ Other _____

ACTIVITY AREAS OF CORPORATE SOCIAL RESPONSIBILITY

In which of the following areas and to what extent or degree is your company involved? Please try to indicate, by an appropriate unit of measurement, the amount of resources committed, (e.g. dollars, manpower, time).

Internal Human Resources

11. Training and educational programs designed to:
 _____ Increase employee job skills and/or promotion potential; amount _____

- ☐ Improve personal (i.e. non-job-related) development (e.g. hobbies, education); amount _____
☐ Management interchange programs with governments and/or universities; amount _____
☐ Other (Please specify) _____
12. Special needs programs directed to:
- ☐ Promotion of women in your work force
☐ Employment and training of handicapped persons, e.g., the blind
☐ Employment of minority or special ethnic groups (e.g. native population)
☐ Part-time employment of youth and/or students
☐ Other _____
13. Special assistance programs for employees such as:
- ☐ Physical or mental health problems
☐ Day-care facilities, or other special arrangements for working mothers
☐ Personal financial planning or assistance
☐ Flexible working hours
☐ Other _____
14. Employment programs beyond legal or contractual requirements, such as:
- ☐ Indexed pension plans
☐ Supplementary health or income protection plans
☐ Other _____

Community Relations

15. Approximate percentage of pretax profits budgeted for financial contributions: _____%.
16. Purposes of contributions:
- ☐ Education
☐ Recreation
☐ Culture/arts
☐ Health/Welfare services
☐ Community Planning/Development
☐ Other _____
17. Nonfinancial or charitable community support by company and employees:
- ☐ Employees allowed time off from work to participate in community affairs
 _____ Yes _____ No
☐ Employees allowed time off from work to participate in political activities
 _____ Yes _____ No
☐ If yes, employees continue to be compensated for time off
 _____ Yes _____ No
☐ Physical resources provided by company for community activities (e.g. meeting rooms, audiovisual materials, transportation facilities). Please specify _____

Physical Environment

18. In which of the following areas of the physical environment has your company committed resources beyond that which is required by law or regulation?
- ☐ Air/Water/Noise pollution abatement
☐ Recycling of process wastes
☐ Conservation of energy
☐ Environmental restoration and/or beautification
☐ Other _____

ORGANIZATION AND MANAGEMENT OF THE CORPORATE SOCIAL RESPONSIBILITY FUNCTION

The following questions relate to the level of awareness, planning, and response in your company to the general area of corporate social responsibility. These questions are also meant to show how your company is organized to manage the social responsibility function.

19. Recognition and attention to the issue of corporate social responsibility is:
 - ☐ Confined to a few individuals in the firm
 - ☐ Centered at the Board of Directors
 - ☐ Centered at the senior operating management level
 - ☐ Centered at lower management levels
 - ☐ Centered within the union or production-worker level
 - ☐ Centered in one particular department (e.g. Public Relations, Public Affairs)
 - ☐ Pervasive throughout all levels in the firm.
20. The subject of corporate social responsibility has been discussed in _____ management and/or employee meetings during the past year.
 - ☐ None
 - ☐ Very few
 - ☐ Some
 - ☐ Many
21. The firm has developed its own formal definition of corporate social responsibility (or social performance)
 - ☐ Yes ☐ No.
 If yes, please give definition: _____
22. If the firm has a definition of corporate social responsibility, has the definition:
 - Been embodied in the corporation's stated objectives?
 - ☐ Yes ☐ No.
 - Been communicated to others inside the firm?
 - ☐ Yes ☐ No.
 - Been communicated to outside groups (e.g. shareholders, the general public, special interest groups)?
 - ☐ Yes ☐ Yes ☐ No.
23. *Specific* secondary or consequential effects resulting from the company's core activities (e.g. pollution, improved community living standards, increased urban congestion, more recreation facilities) have been identified ☐ Yes ☐ No.
If yes, please give examples: _____
24. How/by whom were these secondary effects identified?
 - ☐ Persons within the firm
 - ☐ Externally (e.g. by the firm's suppliers, customers, government agencies, media). Please indicate source of identification: _____
25. What type of information relating specifically to the firm's social responsibility is being gathered and analyzed within the firm, and from what sources? _____
26. Is this information being:
 - ☐ Disseminated throughout the firm? ☐ Yes ☐ No.
 - ☐ Reported to outside groups, (e.g. shareholders, general public, special interest groups)? ☐ Yes ☐ No.

27. A formal plan relating to the company's social responsibility:
- _____ Has been prepared
- _____ Is being prepared
- _____ Is being considered
28. If a plan has been prepared, does it:
- _____ Assign primary responsibility for the corporate social responsibility function to some specific individual or department? _____ Yes _____ No.
- _____ Is this a change in tasks/responsibilities from your former structure?
- _____ Yes _____ No.
- _____ Require new or different criteria for performance by managers?
- _____ Yes _____ No.
- _____ Assign primary responsibility for performance to divisional managers?
- _____ Yes _____ No.
- _____ Require new or different information to be gathered which the firm would not usually require? _____ Yes _____ No.
29. What commitments/approvals/endorsations have been/are being made by the company to the issue of corporate social responsibility?
- _____ Endorsement by Board of Directors
- _____ Commitments by senior management to implement a social responsibility plan
- _____ Development of specific policies and programs relating to the plan
- _____ Other. (Please specify) _____
30. If your company has developed specific plans and responses in the area of corporate social responsibility, which best describes the *primary* purpose of such plans and responses:
- _____ *Reaction* to environmental pressures and changes
- _____ Attempt to *manage* environmental pressures and changes on continuing basis
- _____ Attempt to *anticipate* such pressures before they become corporate issues.

SUMMARY OF CORPORATE SOCIAL RESPONSIBILITY FUNCTION WITHIN YOUR FIRM

After considering your company's overall awareness, planning and responses to the subject of corporate social responsibility, how do you assess your firm in the following areas? Please indicate on each scale the point which best describes your company's position.

31. The extent to which there is a need for some corporate social response:
- | | | | | |
|------|---------|----------------------------------|-------------------------------|---|
| None | Minimal | Moderate in a few selected areas | Critical in a number of areas | High and pervasive throughout the firm. |
|------|---------|----------------------------------|-------------------------------|---|
32. The extent to which awareness and need are recognized throughout the firm:
- | | | |
|------------------------------|------------------------------------|--------------------------------|
| Limited to a few individuals | Generally recognized by management | Pervasive throughout the firm. |
|------------------------------|------------------------------------|--------------------------------|
33. The extent to which awareness and need are formalized within the company
- | | | |
|------------------|------------------------------|--|
| Totally informal | Formalized in specific areas | Institutionalized in firm's planning system. |
|------------------|------------------------------|--|

34. The extent to which the firm has developed and implemented some explicit responses to the issue of its corporate social responsibility

No explicit response activities	Limited response just beginning; Limited resource commitments	Response in several areas; adequate resource commitments	Major effort in several areas; impacting on corporate structure and planning significant resource allocation
---------------------------------	---	--	--

35. Thank you very much for participating in this benchmark study of the subject of corporate social responsibility in Canada. Please add below any comment you wish about the subject in general and its relevance to you, as a corporate manager, and your company as a part of the business community. Any documents which will elaborate or illustrate your answers to this questionnaire will be appreciated. Finally, a reminder that all the information you have supplied will be used with complete anonymity.

FOOTNOTE

*This survey instrument was designed to gather basic data for the report, *Corporate Social Performance in Canada*, prepared for the Royal Commission on Corporate Concentration (Bryce Commission) by a Task Force established by the Niagara Institute, Niagara-on-the-Lake, Ontario, Canada, in 1976.

APPENDIX C—GUIDELINES FOR SOCIAL PERFORMANCE CASE STUDIES

Donald W. Kelly, PUBLIC AFFAIRS INTERNATIONAL, INC.

R. Terrence McTaggant, THE NIAGARA INSTITUTE

These guidelines for case study development do not constitute a formal questionnaire, but reflect the approach presented in conceptual material. Particularly important are: (1) the notion of primary and secondary involvement; (2) the development stages of awareness through action; (3) the criteria of competence, ability, and legitimacy; and (4) the range of organizational responses actually adopted or contemplated by the firm.

As a supplement to the guidelines, the major subject areas and a possible sequence which could be followed in preparing a corporate case study are listed here.

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1. Introduction

The nature of the corporation and its businesses; recent changes in its environment which have provided stimuli for the development of a concept of, and organizational response to, corporate social responsibility.

2. "Hardening up the concept"

Current management perceptions of the company's "stake-holders" and related responsibilities; strength of commitment on the part of top management and degree of internalization throughout the firm; stage of awareness, recognition, planning and analysis, and action with respect to corporate social responsibility in general and specific social responsibility issues in particular; integration, if any, of a corporate social policy perspective into the firm's decision-making processes.

3. *Specific program responses* to issues of corporate social responsibility, including, if possible, the objectives of individual programs, their scope and impact, and whatever procedures may be used for evaluation.

4. *Specific organizational responses* to corporate social responsibility, including the development of a public affairs function and how and by whom the function is supervised and managed.

5. *Problems with the concept and its institutionalization within the firm.* Investigate, for example, lack of clear expectations on the part of government or the public about business' social responsibilities; constraints reflecting fluctuating levels of profit, lack of appropriate criteria, etc.

The results of the analysis for each case should ideally be suitable for presentation in the form of the following matrix with relevant exploration and discussion.

Corporate Social Response Matrix

Stage of Process	General Corporate Policy	Specific Social-Involvement Issues		
		Issue #1	Issue #2	Issue #3
Awareness/Recognition				
Analysis & Planning				
Response: Policy & Implementation				

BASIC RESEARCH SITE INFORMATION

1. Corporate name, address, telephone number.
2. Names, titles, dates of each individual interviewed
3. S.I.C. classification for research site, and description of business.
4. Brief description of the major product lines manufactured, services provided, principal raw materials used, primary markets served (geographical, class of trade or customer).
5. Organizational structure and major external relationships:
 - 1) Organizational chart.
 - 2) Division or department charts for groups and specifically assigned external relations activities, public and/or customer relations; community affairs; government relations, etc.
 - 3) Vertical and horizontal relationships with parent and/or subsidiary firms, associate or affiliated firms.
 - 4) Corporate membership or participation in special interest groups, community affairs groups, international or national business, social or political groups.
 - 5) Any positions of leadership held in special interest groups identified in (4) above by senior managers and officers of company.
6. Statements of corporate objectives, philosophy, or purpose
 - 1) Copies of formal statements of corporate purpose objectives, management philosophy, and policies, particularly relating to issues of corporate social responsibilities.
7. Financial and other economic data
 - 1) Annual reports for last five years.
 - 2) Any available data on expenditures and/or corporate benefit analyses for programs relating to social responsibilities.

GUIDELINES FOR CASE STUDY DEVELOPMENT

Awareness Stage

The company is conscious of an increased level of discussion and concern being expressed within the private and public sectors regarding the general role of business in our society, changing attitudes of society towards the corporation and increasing demands being placed upon the business sector to perform activities and accept responsibilities beyond its wealth and employment. The company has begun to discuss the issue of "Corporate Social Responsibility" within the firm at some or certain of its management meetings. It is beginning to try to define the meaning and relevance of corporate social responsibility for its particular situation.

1. Awareness of the issue of corporate social responsibility is:
 - _____ Virtually nonexistent within the firm
 - _____ Confined to a very few individuals within the firm. Identify by rank and/or function _____
 - _____ Focused at a particular level within the firm or within a particular department or function of the firm:
 - _____ Board of Directors
 - _____ Senior operating management
 - _____ Lower management levels

- ☐ Union/production workers
☐ Particular department. Specify _____
☐ Other _____
☐ Pervasive throughout the management levels of the firm.
2. The subject of corporate social responsibility has been the subject of _____ management meetings within the last year.
3. The firm has developed its own definition of corporate social responsibility.
☐ Yes ☐ No. Give definition _____

Recognition Stage

The company management has become conscious of the existence of specific effects or impacts (positive or negative) of its core activities (beyond its traditional economic effects) that had hitherto gone unnoticed, or the existence and concerns of outside groups that had not previously been taken into account in its planning and decision making.

4. Specific "secondary" effects resulting from the firm's core activities have been *explicitly* identified: ☐ Yes ☐ No.
 If yes, list effects so identified _____

5. These effects were identified:
☐ Internally within the firm. Specifically, for each effect, where within the firm the identification occurred.

☐ by the firm's suppliers
☐ by the firm's customers
☐ by the firm's industry association or other special interest groups.
☐ by a government or regulatory agency. Specify _____

☐ by the general public through the media
☐ other. Specify _____

Analysis and Planning Stage

Once an area of social impact has become recognized by corporate management, a new phase of data gathering, analysis and planning begins. The purposes of this stage are to:

- 1) attempt to quantify or "firm up" the effects of the social impact.
 - 2) determine whether the impact is essentially positive (i.e. perceived as beneficial) or negative.
 - 3) determine the relative importance (minor or major) of the impact to the external groups affected and thus the need for (corrective) corporate response.
 - 4) determine the general nature and specific plan of the corporate response, if required.
6. What type of information relating specifically to the firm's social responsibility is being gathered and analyzed, and from what sources? _____
7. How is such information being:
 a) disseminated throughout the firm? _____
 b) reported to outside groups (e.g. shareholders, public, special interest groups)? _____

8. Has an explicit plan been prepared (or being prepared) relating to the company's social responsibilities and responses? Explain _____
9. Does this plan involve:
- _____ A redefinition of tasks and responsibilities for anyone in the organization?
Explain _____
- _____ A change in the organizational or reporting structure of the firm?
Explain _____
- _____ New data being gathered and reported?
Explain _____
- _____ New additional reporting of corporate performance to include its social responsibility activities?
Explain _____
10. What commitments/approvals/endorsements have been/are being made to the company's social responsibility plans?
- _____ Endorsement by Board of Directors
- _____ Commitments by senior management to implement a social responsibility plan.
- _____ Development of specific policies and programs relating to the plan.
- _____ Other. (Specify) _____

Response Stage

The company puts into place new programs, adopts new behaviors, or otherwise alters its mode of operation in light of the recognized situations and the subsequent analysis, planning, and policy making. Of course, a single large organization may be only at the awareness stage with respect to one area of social involvement, and at the same time be at the response stage (or analysis stage) with respect to another social responsibility issue.

11. For each of the specific issues identified in question 4, identify the stage at which the company's activities are (awareness; recognition; analysis and planning; response):
- | Specific Issue and
Area of Involvement | Stage of
Development |
|---|-------------------------|
| _____ | _____ |
| _____ | _____ |
12. For those issues which are the "response" stage:
- a) Is the response: _____ part of an overall, developed plan
_____ essentially ad hoc
13. Is the purpose of the response *primarily*:
- _____ To mitigate a "negative" effect arising from the company's core activities.

FOOTNOTE

*These guidelines were designed to gather basic data for the report, *Corporate Social Performance in Canada*, prepared for the Royal Commission on Corporate Concentration (Bryce Commission) by a Task Force established by the Niagara Institute, Niagara-on-the-lake, Ontario, Canada, in 1976.

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